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Giants gulp down prestige brands
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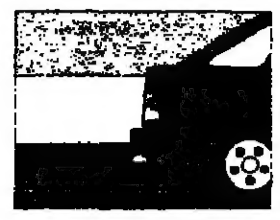

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How Hungary woos the big producers
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World Business Newspaper

TUESDAY JULY 2 1996

FT MANAGED FUNDS SERVICE
Today the FT managed funds service grows from two to three pages in international editions. Strong demand for new listings has led to the extra page being allocated for the offshore and overseas funds section. The main benefit from the expansion will be improved legibility for both our UK and international readers. In today's edition, the service starts on page 23.

Investigation into Frankfurt airport corruption widens

German prosecutors are investigating more than 20 companies and a group of Frankfurt airport officials suspected of defrauding the country's largest airport out of tens of millions of D-Marks during construction of a second terminal. So far 15 people have been arrested, of whom five are still in jail on remand, in what is becoming one of Germany's biggest corruption cases. Page 14

Air France appears to have scrapped plans to merge Air France Europe, its domestic partner, with its own European operations. Page 15; KLM seeks to mend relations with Northwest, Page 16

CS Holding, parent of Credit Suisse and CS First Boston, is expected today to announce a restructuring involving the integration of its commercial and investment banking businesses. CS, whose merger overtures to rival Union Bank of Switzerland were recently rebuffed, sparked off speculation when it said it would hold an "important" news conference this morning.

Paris seeks to shift power base: The French government announced plans to improve its administration and to delegate more decision-making power from Paris to the regions. Page 14

Eta ends ceasefire: The separatist organisation Eta announced it was ending a week-long ceasefire, dimming the Spanish government's hopes of a possible breakthrough in the Basque terrorist conflict. Page 3

Leading firm to aid Sumitomo inquiry: Sumitomo Corporation said leading international accountancy firm, Coopers & Lybrand, would join its internal investigation into estimated copper trading losses of $1.8bn allegedly sustained by the Japanese group's former chief trader. Page 14

Avis agrees $800m takeover by HFS: Avis, the world's second biggest car rental company, agreed to a $800m takeover by US franchising group HFS. Page 17

Tapie given suspended jail term: A French court gave businessman and former cabinet minister Bernard Tapie a two-year suspended jail sentence for fraud. Page 2

Republic Industries, of the US, is to buy ADT, the UK burglar alarm and second hand car group, in an agreed $5bn deal. Page 15; Lex, Page 14

US manufacturing boost: The US Purchasing Managers' Index rose to its highest level in 16 months in June, signalling a strong rebound of economic activity in the manufacturing sector. Page 5

Corsican nationalist hurt in bombing: Prominent Corsican nationalist Charles Pieri and his business partner were seriously injured and seven passers-by hurt when a car bomb exploded in the city of Bastia, police said.

S&N profits rise 16%: UK pubs and brewing group Scottish & Newcastle reported a 16 per cent rise in underlying full-year pre-tax profits to £308m ($471.5m). Page 15; Lex, Page 14

Vietnam's leaders criticised: A delegate at Vietnam's Communist party congress stunned the political leadership by strongly criticising its accumulation of sweeping powers. Page 6

Blanks fired at UK soldier in Germany: Five blanks were fired at a UK soldier on patrol outside the British barracks in Osnabrück, in Germany, in an incident apparently linked to celebrations over the German victory in the Euro 96 football championships, a British forces spokesman said. The incident on Sunday night followed an IRA mortar attack on the same base last week.

England launches World Cup bid: England has launched its bid to stage the football World Cup in 2006. The government is backing the move in the wake of the success of the Euro 96 championships, held in England. Other countries, including Germany, are competing to stage the finals.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,681.96	(+27.33)
NASDAQ Composite	1,193.46	(+8.44)
Europe and Far East		
CAC40	2,118.75	(-4.95)
DAX	2,564.0	(+2.61)
FT-SE 100	3,725.6	(+14.6)
Nikkei	22,455.48	(-75.26)

US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bills: Yld	5.183%
Long Bond	88 17/32
Yield	6.909%

OTHER RATES

UK: 3-mo Interbank	5 13/16%	(same)
UK: 10 yr Gilt	97 1/16	(97 5/32)
France: 10 yr OAT	105.32	(105.38)
Germany: 10 yr Bund	98.15	(same)
Japan: 10 yr JGB	98.5762	(98.7482)

NORTH SEA OIL (Argus)

Brent Dated	$19.58	(19.25)

GOLD

New York: Comex		
(Aug)	$382.7	(381.6)
London:		
close	$382.1	(382.25)

DOLLAR

New York: lunchtime		
£	1.5565	
DM	1.52345	
FFr	5.1525	
SFr	1.25	
Y	109.585	
London:		
£	1.5558	(1.5538)
DM	1.5235	(1.5222)
FFr	5.1525	(5.1483)
SFr	1.249	(1.2517)
Y	109.575	(109.685)

STERLING

DM	2.3701	(2.3651)
Tokyo $ close:	Y 109.8	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 16.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Dn1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft280	Morocco	MDh18	Slovak Rp	Sk85
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.80	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L5200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y600	Pakistan	Rs40	Syria	S£85.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr12.00	Kuwait	Fils.650	Portugal (mainland)	Esc340	Turkey	L90,000
		Lebanon	L£3.000			UAE	Dh12.00

 No 33,025

US government hit by ruling over savings groups

By Jurek Martin in Washington

The US savings and loan debacle of the 1980s returned to haunt the federal government yesterday with a Supreme Court ruling rendering it liable to billions of dollars in damages.

By seven to two, the court upheld rulings by lower tribunals that the government had breached its contract with three savings and loans, or thrifts, through a 1989 act of Congress changing the accounting rules affecting the troubled sector.

The three thrifts – consumer-oriented financial institutions – had responded to government incentives and taken over failed institutions at the height of the crisis early in the last decade. The 1989 act withdrew those incentives.

Justice David Souter, writing the main opinion, found that "terms assigning the risk for regulatory change to the government are enforceable". He said it would have been "madness" for profitable thrifts to take over failed ones, as encouraged by the government prior to the rules change, "for the very existence of their institutions would have been in jeopardy".

In its arguments to the court, the administration had made much of the government's potential liability, claiming that about 100 comparable cases could result in damage awards up to a total $10bn, which some legal experts think may be on the low side.

The rescue of the thrifts has already cost Washington an estimated $130bn. The bailout was prompted after the industry was almost overwhelmed by bad loans, incautious property deals and over-rapid expansion during the 1980s.

Healthy thrifts had been allowed to count the losses of insolvent thrifts as "goodwill" assets, to be written off over 25-40 years, and to "double count" as credits to capital government funds used to assist in bailout operations.

The 1989 change in the accounting rules, requiring all goodwill to be written off in six years, forced the two smaller thrifts in yesterday's ruling – from Iowa and Minnesota – into receivership.

The largest of the three institutions in the ruling – Glendale Federal Bank of California – had acquired a Florida thrift in 1981 together with over $700m in goodwill at the urging of the government, but had to raise $450m in order to meet statutory minimum capital requirements.

Its suit against the government claims damages of over $1.5bn, including the costs of raising new capital and loss of income from the forced sale of assets.

The immediate practical effect of the court's ruling is to return the three cases to the lower courts for an assessment of damages. Other pending thrift lawsuits may now proceed.

But it also may have wider ramifications throughout the whole area of government contracting. That concern was evident in the government's brief to the court, which argued that contracts cannot provide guarantees against subsequent regulatory changes.

Pre-poll appearance fails to dispel doubts over Russian president's health

Frail Yeltsin in TV votes plea

by John Thornhill in Moscow

A frail-looking President Boris Yeltsin yesterday made a televised appeal to Russian voters to reject the communist challenge posed by his rival, Mr Gennady Zyuganov, in the decisive second round of the presidential elections.

Dispelling the worst fears about his health after four days out of the public eye, Mr Yeltsin told Russians there was only "one road to a normal life" on the last day of campaigning before tomorrow's poll.

In the first round of elections "the majority of you voted for a free and normal life, and also said firmly that the time had come to wed freedom to order, to care for the people. I accepted your will as a direct mandate for action," the president said in a slow, steady voice.

Despite his two-minute television appearance, doubts persisted about Mr Yeltsin's health after he called off a meeting yesterday with the leaders of Ukraine and Moldova. Diplomats from both countries confirmed the meeting had been cancelled at the last-minute request of the Russians.

The president's spokesman has claimed Mr Yeltsin has only been suffering from a sore throat and tiredness after his gruelling campaign. But Mr Yeltsin's unsteady performance will add to speculation that it is something more serious.

Seeking to make last-minute political capital out of the uncertainty, Mr Zyuganov, the Communist party challenger, called for a medical report on the 65-year-old president to ensure the people could be certain about who was governing them.

"Some people say he [Yeltsin] has laryngitis, others say he has bronchitis, still others indicate that the situation is worse," Mr Zyuganov said.

"In these conditions the government is duty bound to publish a document on the state of health of Mr Yeltsin and calm down the public." Mr Stanislav Govorukhin, a film director and parliamentary deputy who has supported Mr Zyuganov's candidacy, called for the elections to be postponed until Mr Yeltsin had recovered.

"We have not seen him for several days and today they showed us a painted mummy as if they had just got it from the mausoleum," he said. "Today they are suggesting we vote for a living corpse."

What effect rumours about Mr Yeltsin's health will have on the outcome of the elections is impossible to gauge.

Most of the Russian media has stifled reports about Mr Yeltsin's presumed illness. But some observers argued wavering voters might be more inclined to stay away from the polling booths.

Russia's financial markets, unsettled by the rumours, reacted positively to Mr Yeltsin's reappearance.

In his last press conference before the poll, Mr Zyuganov turned up the heat on Mr Yeltsin, lashing out at the "criminal and bureaucratic" state. But Mr Zyuganov did not rule out the possibility of joining a coalition government if Mr Yeltsin were to be re-elected.

Other leading communists also joined in the calls for compromise. Mr Aman Tuleyev, a senior Communist Party activist, said he would be prepared to work in a government headed by Mr Victor Chernomyrdin, the prime minister, after the elections.

"If the majority of Russia citizens vote in favour of Yeltsin we should take the popular will into account," he said. "All political showdowns should end after July 3 regardless of who wins the second round." Speaking to a meeting of foreign investors yesterday, Mr Chernomyrdin hinted some communists might be included in a broadly-based coalition government if Mr Yeltsin were returned to office.

Boris Yeltsin (left) with prime minister Victor Chernomyrdin during their meeting yesterday in the presidential residence Picture: Reuter

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Way out of the wasteland, Page 12
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Brussels seeks probe of proposed Anglo-US air alliance

By Michael Skapinker in London and Neil Buckley in Brussels

Mr Neil Kinnock, European Union transport commissioner, and Mr Karel Van Miert, competition commissioner, are seeking powers to investigate the proposed alliance between British Airways and American Airlines and five existing transatlantic alliances.

They will ask fellow commissioners for a mandate to launch a joint probe under a little-used provision in the European Union's Treaty of Rome. But a formal investigation might not be launched for several weeks, officials said.

The European Commission's inquiry would cover existing agreements between Lufthansa of Germany and United Airlines of the US; KLM of the Netherlands and Northwest Airlines of the US; Austrian Airlines, Swissair, Sabena of Belgium and Delta; Scandinavian Airlines System and United of the US; and BA's existing alliance with USAir.

Since the investigation would be under the little-used article 89 of the EU treaty, officials said it was too early to speculate what action might be taken if any alliances were deemed anti-competitive. But article 89 authorises the Commission to "propose

Continued on Page 14
Air France may scrap plans, Page 15; KLM seeks to end wrangle, Page 16

Paris confirms merger of Aérospatiale and Dassault

By David Buchan in Paris

The French government yesterday confirmed that the long-discussed merger between state-owned Aérospatiale and privately-controlled Dassault into "a single French aerospace group" was agreed and would be completed within six months.

The government said that it hoped the new group, with combined sales of more than FFr60bn ($11.5bn), would be able to "play a driving role on the European level and to rival its US competitors".

Together, Dassault and Aérospatiale would be similar in size to Daimler-Benz Aerospace (Dasa) and British Aerospace (BAe), Europe's two other large aircraft manufacturers.

The government as majority shareholder would have "effective control" of the group. Mr Serge Dassault, president of his family manufacturer of military and business jets, is expected to have a stake of 25-33 per cent.

The company would be constituted so that its capital could be opened to others "as soon as possible", the government said. The merger would constitute an initial, partial privatisation of Aérospatiale, which is owned 83 per cent directly by the French state and has been on the government's privatisation list.

Yesterday's announcement contained no detail of the merger's "technical, financial and industrial aspects". These would be finalised by January 1 1997, much earlier than the two-year deadline originally mooted. The government, which already owns 46 per cent of Dassault, indicated it regarded movement towards the merger as irreversible.

The government had hoped that a pilot committee set up by the two companies would produce a detailed merger plan by June 30. But seeking to protect his family firm's independence and thwart the merger plan, 71-year-old Mr Dassault had until May refused to let the committee even meet. Eventually his resistance was worn down, not just by the government but perhaps also by an arrest warrant issued in May against him by a Belgian judge in a case involving alleged bribes by Dassault to win a contract in Belgium.

With total turnover of FFr49.2bn last year, Aérospatiale is far larger than Dassault which had sales of FFr11.5bn. But last year Aérospatiale had a net loss of nearly FFr1bn compared with Dassault's net profit of FFr526m.

The structure of the group has yet to be agreed. Mr Dassault has asked to be made president of a new supervisory board, leaving day-to-day control of a new executive "directoire" to Mr Louis Gallois, chairman and chief executive of Aérospatiale.

Yesterday's statement stressed that "a significant part" of Aérospatiale's 3,000 aircraft designers and engineers would be pooled with Dassault's 1,500-strong research team, as well as the two companies' buying services.

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Dogfight nears its end, Page 13

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Brussels rejects fixed targets for Emu

By Lionel Barber in Brussels

The European Commission will steer clear of fixed targets for enforcing budgetary discipline among countries participating in the single currency, Mr Yves-Thibault de Silguy, monetary affairs commissioner, said yesterday.

Despite German calls for budget deficits to be limited to 1 per cent of gross domestic product, Mr de Silguy told the European Parliament that the Commission would set budgetary objectives offering "breathing space" to individual economies using the single currency, the euro. The commissioner's comments suggest that Germany can hope for only a partial victory in its campaign for a stability pact to fill in the gaps in the Maastricht treaty on budgetary discipline.

Earlier German proposals for automatic sanctions against fiscal delinquents, including fines of up to 0.25 per cent of GDP, are also likely to fall by the wayside.

However, the political commitment to sound budget management is certain to survive and to be incorporated in secondary legislation. The final decision rests with governments, with finance ministers likely to decide the shape of the stability pact at a meeting in Dublin in September.

Separately, Mr de Silguy told the parliament's monetary affairs sub-committee that the Commission remained undecided about how best to make the euro legal tender. The issue is sensitive because it turns on whether Britain and Denmark – which have an Emu "opt-out" – as well as the European Parliament should be involved in the move to establish conversion rates between the euro and national currencies ahead of the launch date of January 1 1999.

One option is to use the "catch-all" Article 235, which says governments can take appropriate measures on the basis of a proposal from the European Commission and after consulting the European Parliament. In this case, Britain and Denmark would participate in a decision requiring unanimity. The alternative is to use Article 109L, which calls for all governments without derogations or "opt outs" to act unanimously, but after consultation with the European Central Bank rather than the parliament. MEPs issued a pre-emptive strike against the use of article 235. Their concern has grown in recent days after EU leaders signalled that they intended to bypass formal procedures for establishing whether a majority of countries met the Maastricht criteria for Emu next year.

Maastricht offers the chance for a fast-track Emu in 1997 if a majority of member states meet the criteria on inflation, interest rates, exchange rate stability, budget deficits and government debt in 1996.

Belgium led a move at last month's EU summit in Florence to jettison the treaty procedures on a fast-track Emu on grounds it was superfluous. Others backed Belgium to gloss over the fact that only a handful of countries meet the criteria, at most Denmark, Ireland and Luxembourg.

Mr de Silguy assured MEPs that the Commission would respect the treaty and carry out proper scrutiny of member states' economic performance in 1996. The European Monetary Institute, forerunner of the European Central Bank, is also supposed to produce a report on individual member states in time for the EU summit in Dublin in December.

Bosnian Serbs may face fresh sanctions

By Paul Wood in Sarajevo

The Bosnian Serbs were told yesterday that economic sanctions against them were once again likely, after their insistence that Mr Radovan Karadzic remained in office and in power.

The office of Bosnia's chief international civilian administrator, Mr Carl Bildt, said the Bosnian Serbs were continuing to flout the Dayton peace agreement, which requires the resignation of the Bosnian Serb leader as an accused war criminal.

Mr Bildt's deputy, Mr Michael Steiner, said that by keeping important party functions, and retaining the title of president, Mr Karadzic was still holding public office – despite international demands at the G7 summit for his unconditional resignation.

"It is now up to the international community to follow up its solemn words with actions, because that is the only language which is understood [at Bosnian Serb headquarters] in Pale," Mr Steiner said. "The status quo is not tolerable."

Mr Steiner would not specify the exact measures being considered, but Mr Bildt's officials confirmed economic sanctions were one option. Consultation began last night as Mr Bildt arrived back in Sarajevo to see Admiral Leighton Smith, the commander of the Nato-led peacekeeping force Ifor.

Either can reimpose economic sanctions without further authority from the United Nations. The current UN resolution allows only for sanctions against the Bosnian Serbs together with neighbouring Yugoslavia. That would damage Mr Slobodan Milosevic, the Serbian president, one of the main guarantors of peace in the area.

Mr Bildt may seek international backing for a new resolution targeted against the Bosnian Serbs alone.

The other option for Mr Bildt is the military one, asking Ifor to take more aggressive action to arrest Mr Karadzic. Mr Anthony Lake, President Bill Clinton's national security adviser, said yesterday Nato troops would arrest the Bosnian Serb leader "on sight." However officials in Sarajevo insisted their current mandate precluded search and arrest missions.

● Unofficial returns from elections in the divided city of Mostar last night showed ethnically-based Croat and Moslem parties have together taken more than 90 per cent of the vote. Moderate non-ethnic parties did not do well. The Croat nationalist HDZ party won 45 per cent, the mainly Moslem SDA 48 per cent, with two extreme Croat parties taking most of the rest.

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THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boetie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert. c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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Chrystia Freeland on the city that could make the difference in Russia's poll

The dilemma of liberal St Petersburg

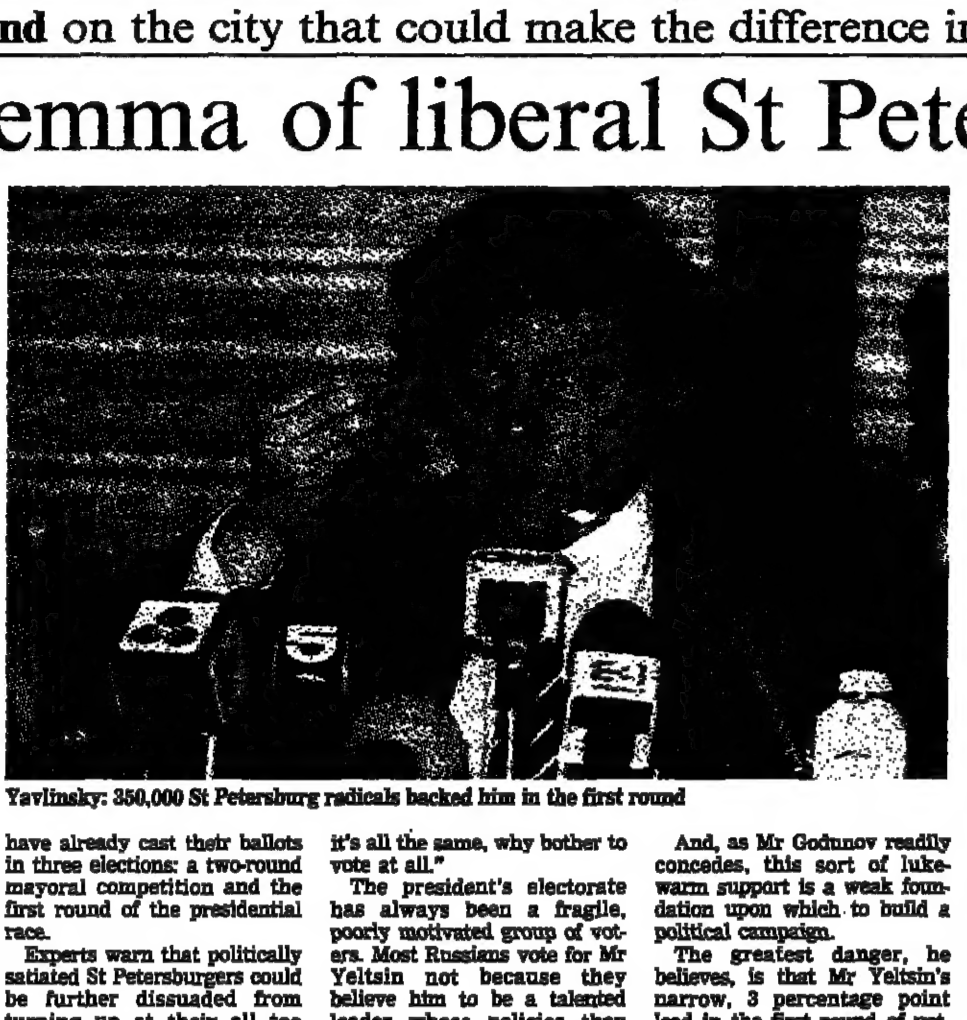
For nearly three centuries since Peter the Great first commanded his vassals to build a new capital on the Baltic coast, St Petersburg has cultivated a somewhat disdainful attitude toward the Russian heartlands.

This is no more evident than during elections, when the city consistently plumps for westernised liberal democrats. In the parliamentary poll last December it was one of the few areas where Mr Grigory Yavlinsky's liberal Yabloko party came in first place and in the first round of presidential voting last month Mr Yavlinsky, who drew only 7 per cent of the vote nation-wide, was backed by more than 15 per cent of St Petersburgers.

But tomorrow, when Mr Boris Yeltsin, Russia's ailing leader, confronts his Communist rival in a crucial run-off for the presidency, liberal St Petersburg could play a decisive role in determining the fate of the nation. While Mr Gennady Zyuganov, the Communist candidate, can count on the rock-solid support of 25m committed comrades in the Russian provinces, observers believe that Mr Yeltsin's bid for re-election hinges on the more fickle views of the electorate in Russia's biggest cities, especially St Petersburg and Moscow.

Although local politicians and analysts believe the Communists are unlikely to pick up any additional votes in these prosperous metropoles, polls suggest that the election result depends on whether tomorrow Russia's well-heeled urbanites can be persuaded to come to the polls in the first place.

Attracting a high turnout is expected to be particularly difficult in St Petersburg, where over the past six weeks voters have already cast their ballots in three elections: a two-round mayoral competition and the first round of the presidential race.



Yavlinsky: 350,000 St Petersburg radicals backed him in the first round

Experts warn that politically satiated St Petersburgers could be further dissuaded from turning up at their all too familiar polling stations by Mr Yeltsin's recent reversion to the stumbling ill-health which cast a pall over his presidency last year.

"The only thing that worries me," says Mr Alexander Sungurov, president of Strategy, a St Petersburg political think-tank, "is that Yeltsin has disappeared from view – people are beginning to fear that a second cycle of inactivity of Boris Nikolaevich is beginning and they may fear that he has again begun to drink.

"This is bad for Yeltsin. Many people may just say – it's all the same, why bother to vote at all."

The president's electorate has always been a fragile, poorly motivated group of voters. Most Russians vote for Mr Yeltsin not because they believe him to be a talented leader whose policies they admire but on the rationale that the 65-year-old incumbent is "the lesser of two evils".

In St Petersburg this view is so widespread that it is shared even by the people one might expect to be most unreservedly behind the president – his campaign staffers.

But, says Mr Andrei Godunov, the deputy manager of the Yeltsin campaign in Russia's second city, "I've always taken the position that 'Yes, Yeltsin can be bad, but what's the alternative? We do not have the right to lose Russia a second time'."

And, as Mr Godunov readily concedes, this sort of lukewarm support is a weak foundation upon which to build a political campaign.

The greatest danger, he believes, is that Mr Yeltsin's narrow, 3 percentage point lead in the first round of voting will allow many of St Petersburg's liberal intellectuals to conclude that, because Mr Yeltsin is certain to triumph, they need not burden their consciences by personally casting their ballots for him.

"Much of the intelligentsia thinks that Yeltsin will win anyway so they needn't dirty their hands by voting for him," Mr Godunov says. "I can sympathise with this view, this desire to remain in white clothes, but it is an egotistical and emotional position."

The voters most likely to take this stance are the 350,000 radical democrats in St Petersburg who backed Mr Yavlinsky in the first round. The powerful St Petersburg branch of Mr Yavlinsky's Yabloko party decided last month to advise its supporters to vote against both Mr Yeltsin and Mr Zyuganov and although Mr Yavlinsky has himself urged Russians not to support the Communists he has not formally given Mr Yeltsin his backing.

This hard-core liberal electorate could be crucial to Mr Yeltsin's bid for re-election, but it is deeply ambivalent about a man whom many liberal St Petersburgers remember as a former politburo member and author of the war in Chechnya rather than the heroic father of Russian democracy.

As Mr Mikhail Amosov, a professor and head of the political council of the St Petersburgs Yabloko party, explains: "Even those who will vote for Yeltsin will take the view that Yeltsin is evil, that he is a man whose politics we do not share, but, in the end, that Yeltsin is for a market economy and... despite all the abuses, he has allowed some degree of freedom of the press."

However, Mr Amosov, who says he has not yet decided how he will cast his own ballot, admits that many other St Petersburg liberals will not be able to bring themselves to offer the president even this, conditional, support.

Thus, tomorrow, St Petersburgers will be facing a moral dilemma which has haunted Russia's "window on the west" since it was first established: whether they can bear to support a president they dislike in order to stop Russia's rural masses from choosing someone even worse.

Dutch seek to ease weight of welfare

Gordon Cramb reports on proposed changes to Europe's most costly benefits system

A Dutch hospital employee strains his back lifting a patient. For more than a decade – during most of which he is fit to do anything except shift heavy loads – he draws disability benefit worth as much as 70 per cent of his former salary.

An Amsterdam shop assistant succumbs to stress and claims the same allowance, under provisions that cover psychological incapacity.

A senior executive at one of the Netherlands' biggest companies tests positive for the HIV virus, which can lead to Aids. He takes sick leave at full pay for a year, after which he hopes to draw a similar benefit.

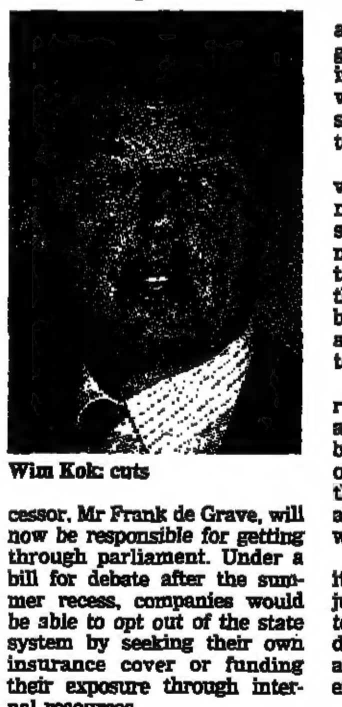
Three case notes, whatever their varying merits, from a welfare system that costs the Netherlands a third of its gross domestic product each year, the highest ratio in Europe. More than 10 per cent of the labour force is classified as, in practical terms, entirely disabled. The proportion has doubled over the three decades in which disability cover – for which Dutch workers pay up to 8 per cent of income – has been available.

The businessman, in spite of his more enduring medical condition, will have a harder time than the former health worker, because rigorous assessments and reduced payments for new applicants are a centrepiece of reforms to the Dutch welfare state put in train two years ago.

Still not fully implemented, they were a product of difficult negotiations among the three partners in the ruling coalition government of Mr Wim Kok, the prime minister, and are again causing strains within the cabinet.

Crucial to their success was acceptance by his socialist PvdA party of the need for change in order, among other things, to keep within budgetary criteria for European monetary union. To steer them through, a PvdA social affairs minister was teamed with a junior minister from the free-market VVD, strongest advocate of welfare cuts.

On Friday the junior minister, Mr Robin Linschoten, resigned after the PvdA and the reformist D66, the other coalition member, refused to give him adequate backing against [illegible]osition allegations t[illegible]t he [illegible] misled parliament. [illegible] of the man most [illegible] with bringing market [illegible] to bear on the benefits [illegible]ture comes before a pro[illegible] second round of changes [illegible] be disability and sick pay laws, which his successor, Mr Frank de Grave, will now be responsible for getting through parliament. Under a bill for debate after the summer recess, companies would be able to opt out of the state system by seeking their own insurance cover or funding their exposure through internal resources.



Wim Kok: cuts

The level of employer provisions required will also be assessed according to risk: industries as diverse as building and banking currently pay at the same rate.

Companies that opt out will have to sign up with an occupational health and safety adviser. But "they will no longer have to pay towards insuring the workers of a competitor who does not take health and safety seriously", Mr Linschoten has said.

The proposals build on a previous set of changes in which new disability claimants are subject to periodic reassessment and, if deemed fit, must take almost any job rather than one which was agreed to be "suitable" to the individual's education and work history.

Moreover, the 70 per cent rule for those now being accepted for the scheme has been replaced by a less generous sliding scale linking age to the difference between last salary and the national minimum wage.

Many maintain that disability benefit has been abused just as much by company doctors, encouraged to arrange the departure of underachievers, as by workers seeking an easy exit.

Either way, in a paper published last month by the official Central Planning Bureau, Mr Ed Westerhout concluded that nearly half those on such schemes were hidden unemployed, and if added to the published jobless figures (about 7 per cent) would roughly double them.

Separately, the bureau estimated that prudent decisions over social security and tax in the autumn budget could add a quarter point to GDP growth next year.

Yet too tough an approach could endanger the painstaking consensus built around the issue. Public acquiescence over the necessity to reduce overall benefit outgoings has been wide. At the same time the upper house of parliament, elected by the provinces, is being vigilant in the defence of those made vulnerable by the changes.

For example, senators forced the government to protect existing recipients from an overhaul of widows' and orphans' pensions, which came into effect yesterday. In a measure which some fear may be extended to other parts of the welfare net, bereavement benefits will from now on be means tested.

Death does not weigh too heavily on the mind of the HIV-positive Amsterdam businessman. His financial outlook concerns him more. "New drugs are finding a way for people to live with this condition," he says. "I have some savings, but I have paid my contribution to the state system. I trust it is still prepared to meet its side of the bargain."

Alitalia secures capital for relaunch plan

By Andrew Hill in Milan

The Italian treasury and Iri, the heavily indebted state holding company, yesterday approved a L3,000bn ($1.9bn) capital increase aimed at restructuring and relaunching Alitalia, the troubled state airline.

The treasury, Iri's only shareholder, and the state holding company agreed to back the operation only if Alitalia's outline plans to reduce costs and restructure the company were met.

The size of the cash injection is certain to attract criticism from profitable European airlines such as British Airways, but Iri said yesterday it believed the plan's aims were strict enough to satisfy the European Commission that the capital increase did not mask illegal subsidies.

Alitalia's unions last month gave preliminary approval to restructuring of the carrier, but only on condition that a two-stage L3,000bn capital increase went ahead and they were granted a stake in the company of between 20 and 30 per cent.

Iri said it would underwrite the first phase of the capital increase, worth L1,500bn, "immediately". The holding company said advisers would be appointed shortly to handle the sale of Alitalia shares. Iri will seek outside investors' support for the first phase, although analysts believe it will be difficult to persuade new shareholders to invest in the loss-making airline at this stage.

The holding company plans to cover part of the capital injection with the proceeds of forthcoming privatisations. If Iri falls behind with its programme of privatisations, the additional burden of funding the Alitalia plan could jeopardise its attempt to reduce debt by the end of this year to levels set in a 1993 accord between the Commission and the Italian government.

Iri said it would also "participate in the successive phases of the [Alitalia] recapitalisation," on condition that the aims of the plan were met. If necessary, the treasury may put pressure on Iri to seek disposals to fund the second phase of the capital increase.

There had been fears yesterday that Mr Carlo Azeglio Ciampi, the Italian treasury minister, might block the capital increase, on the grounds that the restructuring plan was too bland. Such a decision would have put in jeopardy the initial agreement between unions and management.

But after a board meeting and subsequent discussion with the treasury Iri said the plan would go ahead. The treasury is understood to have insisted on the need to avoid direct subsidies for the airline. An extraordinary meeting of Alitalia shareholders last night waved through the capital increase.

EUROPEAN NEWS DIGEST

Bremer Vulkan legal battle

The BvS, the successor to the Treuhand privatisation agency, has issued law suits against Mr Friedrich Hennemann, the former chairman of Bremer Vulkan, and three other executives in an attempt to recoup some of the missing DM850m ($552m) which was supposed to have been invested in three east German shipyards owned by Bremer Vulkan.

Mr Hans Janknecht, the state public prosecutor of Bremen, yesterday said the suits, each totalling DM10m, were issued last Friday, the day after the budget committee of the Bundestag, or parliamentary lower house, debated a damning report about the BvS's mishandling of state-backed funds granted to Mr Hennemann since 1992.

Mr Hennemann has been held in custody since June 20 on charges of breach of trust in his dealings with the BvS. The other three executives against whom suits were filed, Mr Johannes Karl Schnüttgen, Mr Hans Ernst Hoffmann and Mr Günter Smidt, have not been detained. All three were unavailable for comment. *Judy Dempsey, Berlin*

Another jail sentence for Tapie

The French left-wing deputy and businessman, Mr Bernard Tapie, was yesterday given a two-year suspended prison sentence for misuse of corporate assets.

Mr Tapie was also fined FFr300,000 ($58,000) and barred from company management for five years for his role in the Testut affair, involving a company he once controlled. His lawyer said Mr Tapie did not intend to appeal.

Mr Tapie, 53, a minister under François Mitterrand, faces losing his seats in the National Assembly and the European Parliament. Earlier this year he was convicted with his wife and two bank officials of fraudulent bankruptcy.

Last November he was sentenced to eight months in jail for fixing a football match as president of Olympique Marseille. In May he was sentenced to 18 months in prison, 12 suspended, for tax evasion. He was also sentenced to 30 months suspended and banned from managing a company for 10 years for abuse of corporate assets and bankruptcy. Mr Tapie has appealed all of his convictions, thus staying out of jail. *AFP, Paris*

Icelandic leader goes apolitical

Mr Olafur Ragnar Grimsson, Iceland's controversial President-elect, is to resign from the left-wing People's Alliance party and has pledged to eschew politics when he takes office, following his election win over three rival candidates.

Mr Grimsson was elected with 41.8 per cent of the vote in Saturday's election and will formally succeed Ms Vigdis Finnbogadottir on August 1. He easily defeated second-placed Mr Petur Hafstein, the main right-wing candidate who won 28.8 per cent of the vote. Mr Grimsson, a former finance minister, came under sharp attack during the election campaign, notably from the business community, for his left-wing background.

In line with his party's policy, he had previously taken a stance against Iceland's Nato membership and advocated the withdrawal of US troops from Iceland.

But he said he would preserve the traditional non-political role of the presidency. *Hugh Carnegy, Stockholm*

Spain discusses closer Nato ties

Plans for changing Spain's status in Nato to a full partner in the alliance's new military structure were discussed yesterday by Mr José María Aznar, prime minister, and Mr Javier Solana, Nato's Spanish secretary-general, on a visit to Madrid.

The centre-right government intends to seek parliament's backing in the autumn for the move, which follows a similar switch in position by France. In practice, Spain already co-operates closely with the alliance. But the change is strongly opposed by the Communist United Left, which argues it contravenes the terms of Spain's 1986 Nato referendum.

The referendum confirmed Spain's membership of the alliance, which it joined four years earlier, on condition that it cut back US bases, barred nuclear weapons and stayed outside Nato's military organisation. Spain wants to ensure that the military reorganisation of Nato includes scrapping the alliance's Gibmed command based in the disputed British colony of Gibraltar. *David White, Madrid*

Setback for Turkish coalition

A seventh MP yesterday resigned from the True Path party of Mrs Tansu Çiller, deputy prime minister in Turkey's new Islamist-conservative coalition government, further narrowing the chances it can win the parliamentary vote of confidence scheduled for next Monday.

Mr Safder Gaydali defected in protest at True Path's alliance with the Islamist Refah party of Mr Necmettin Erbakan, the prime minister. His resignation cuts True Path's parliamentary strength to 127 MPs. Although Refah and true Path have 284 MPs between them, eight more than needed to win a majority, further resignations are expected.

Mr Erbakan, on his first working day in office, was briefed by the treasury for three hours on the state of the economy. Financial markets were calm. Turkey's currency, the lira, and share prices on the Istanbul stock exchange were steady as markets awaited the outcome of the vote of confidence in the new government. *John Barham, Ankara*

Kurdish satellite TV shut down

Med TV, the London-based Kurdish-language television station which has been a thorn in the side of the Turkish authorities, ceased broadcasting at midnight last night after a Belgian company, LBO, cancelled its contract to supply satellite time.

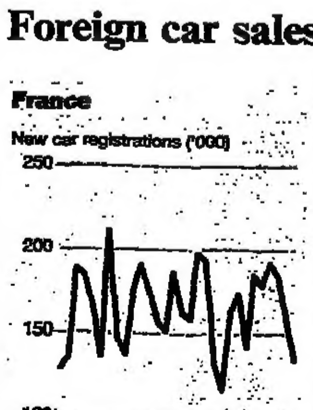
Med TV had leased time on the Eutelsat satellite through the French and Portuguese state-owned telecommunications companies. Mr Haluk Sayan, a director of Med Broadcasting, said he understood that both France and Portugal had withdrawn their approval under political pressure from the Turkish government. *Edward Mortimer, London*

ECONOMIC WATCH

Foreign car sales rise in France

France

New car registrations ('000)



Source: Datastream

Foreign car makers significantly increased their share of the French car market in the first six months of this year. Figures released yesterday by the Committee of French Car Makers, an industry body, put the share of the market captured by non-French manufacturers in the first half of 1996 at 43.5 per cent, against 37.7 per cent in the corresponding period a year earlier. Fiat of Italy registered a particularly strong advance with its sales rising 48.4 per cent from 1995 levels. This gave it a market share of 8.6 per cent. Among domestic car makers, Renault – the market leader – was hardest hit, with sales tumbling nearly 14 per cent compared with levels in the first half of 1995. This cut the company's market share to 26.2 per cent from 31 per cent a year earlier.

A total of 1.03m new cars were registered in the first half, an increase of 18,000 on a year ago. However, the committee said that after a good first quarter, the last three months were "marked by an appreciable and continuous slowdown in the market". *David Owen, Paris*

■ Czech industrial production increased 4.1 per cent in May over May 1995 in real prices, and 9.2 per cent in January-May over the same period in 1995.

Eta ends ceasefire as Spain snubs offer

By David White in Madrid

Hopes sparked by the Spanish government of a possible breakthrough in the Basque terrorist conflict receded yesterday when the Eta separatist organisation announced it was ending a week-long unilateral truce.

A statement from Eta published in the Basque newspaper, Egin, said the government had failed to give a clear answer to its proposals for a negotiated settlement, and accused it of following a "war policy".

Eta added that its operative units were "aware" of its decision, although the organisation said it was still open to negotiations.

It is seeking a response to a set of demands it issued in April last year when it attempted to kill Mr José Maria Aznar, now prime minister, in a car-bomb attack in Madrid.

Mr Aznar, however, said all indirect channels to Eta had been cut since his conservative Popular party (PP) took office in May. "All contacts have been closed, absolutely and radically," a senior PP official quoted Mr Aznar as telling a party meeting.

But Mr Jaime Mayor Oreja, the interior minister, said yesterday that the government would still press ahead with a conciliatory policy towards jailed Eta members.

Mr Mayor Oreja agreed at the weekend to move 32 Eta prisoners to prisons closer to their homes in the Basque region. There are about 500 convicted Eta members in jails throughout Spain.

Convicted members of Eta are usually dispersed to make it more difficult for them to form networks. The relocation of jailed rebels has been a key demand of Eta – the Basque-language initials for Basque Homeland and Freedom.

Last week the centre-right cabinet threw its weight behind a declaration from political parties in the Basque country, rejecting Eta's terms but backing talks if the organisation released a kidnapped prison guard, extended its ceasefire and accepted democratic institutions. An opinion poll in the Basque region published by the daily El Mundo showed overwhelming backing – 88 per cent – for holding peace talks if these conditions were met.

A smaller majority of almost 54 per cent said one of the subjects for these talks should be recognition of the region's right to self-determination, meaning the possibility of a referendum on independence, which Spain's governing party has consistently rejected.

The seven-day truce was the first since 1989, when leading Eta figures took part in unsuccessful talks with Spanish officials in Algeria.

It coincided with the disclosure that Mr Adolfo Pérez Esquivel, the Argentine human rights campaigner and Nobel prizewinner, acted as a secret go-between last year for tentative contacts between Eta and the previous Socialist administration.

The contacts broke off abruptly when Eta resumed its assassination campaign in the run-up to general elections in March.

Last week's "temporary suspension of armed operations" was received with scepticism in other political circles, including moderate Basque regionalists. "Eta is making a mistake if it thinks we are begging for a ceasefire on our knees," Mr Xabier Arzalluz, leader of the Basque Nationalist party, said at the weekend.

Prime minister Aznar, who escaped an Eta bomb attack on his car last year, said in response to overtures from the separatists: 'All contacts have been closed, absolutely and radically'

Ukraine awaits test of democracy

Matthew Kaminski reports on the significance of the adoption of a new constitution

Ukrainians have been busy toasting their constitution since its adoption on Friday, but an even harder task now centres on creating an independent judiciary to interpret the document.

Success on this point may determine whether the constitution, which spells out the division of power and secures democratic rights, can become the backbone for the stable and sovereign Ukraine expected by western capitals and foreign investors.

As in the US, the founding fathers in the Kiev parliament that ratified the constitution are charged with setting up an 18-member supreme court on a Soviet foundation, where previously judges and lawyers were directly susceptible to outside political influence and the rule of law was not respected.

Laws are needed to establish the highest court and divide jurisdiction with the lower courts. The president, the parliament and a judicial council have the right to nominated six judges each to the supreme court. But all the other details, including the procedure for breaking a tie in the even-numbered court, have been left open.

The general prosecutor, an essential institution in the Stalinist police state, will retain its dual role of investigating and prosecuting cases for a year. After that, the quasi-independent office will be under the judiciary, setting the stage for potential conflicts of interest.

"The real question is whether the courts in Ukraine will emerge as a third and co-equal power," said Mr Stephen Nix, an American lawyer at the Kiev office of the International Foundation for Electoral Systems. The vagueness of certain important clauses in the constitution should open the door to many test cases in the future.

A clarification on property rights will be pressed by investors, after the communist faction dropped the term "private" from the guarantee to own property, leaving its form open to interpretation.

In promoting a tolerant and multiethnic climate, the constitution made Ukrainian the state language, yet guaranteed educational instruction in other languages. Laws are needed to determine which minorities besides the Russians qualify. Challenges are expected from the several other large ethnic groups, such as the Crimean Tatars and the Hungarians.

Many observers believe the short-term benefit from ending the drawn-out constitutional fight, nearly five years old, will be to focus the government's attention on the other pressing problems and more plainly spelling out which branches are responsible for setting and implementing policy. Both the main adversaries, parliament and president, made compromises and consider the final product legitimate after its passage on a vote of 315-36.

> The general prosecutor, an essential institution in a Stalinist police state, will retain for a year its role of investigating and prosecuting cases

Mr Leonid Kuchma, the president and head of state, will pick the prime minister to run the government. Parliament gained the right to vote on the prime ministerial nomination, which it could not under the current power-sharing arrangement.

The president's right to issue decrees will expire after three years, leaving the passage of laws solely to parliament and giving the prime minister more freedom. The president retains his hold over local government appointments.

But a barrier to co-ordinated decision-making remains the structure of the cabinet, which analysts believe carries an unwieldy number of ministers with overlapping portfolios.

The passage of the constitution amplifies the demands for administrative reform.

Ukraine's ability to adopt a constitution in a democratic and open way has raised optimism that the various elites who claim a mandate to rule the country can work out differences in the division of power.

Mr Oleksander Moroz, the socialist parliamentary chairman, said his chamber cemented its legitimacy by proving it could be a partner for the president and pass important legislation. Unlike other ex-Soviet republics, Ukraine's parliament was not dissolved and violence was hardly a real threat during the divisive debate.

Ukrainian leaders were visibly relieved that the constitution, which has been called the last step to solidifying independence, was adopted before the second round of Russia's elections scheduled for tomorrow.

Greece casts light on Cretan crisis

Greece's state electricity utility, PPC, has resorted to desperate measures to avoid blackouts on Crete at the height of the tourist season.

PPC last month offered to subsidise purchases of energy-saving light bulbs by the island's 300,000 householders, with the aim of cutting electricity consumption by up to 20 per cent.

Crete suffers from severe electricity shortages because of unusually determined "not-in-my-backyard" opposition to PPC's attempts to find a site for a new power station. Nor does the energy ministry's writ carry much weight on an island with a long tradition of armed resistance to authority.

PPC planners in Athens blame threats of violence by local residents at several proposed sites for a 15-year delay in building a third power station on the island.

"It's difficult to argue with obstinate Cretans carrying shot-guns," one senior official said. "Instead of building a new facility, we focused on upgrading the two existing plants, reducing transmission losses and finding new ways to conserve energy."

The new energy-saving campaign requires the Cretans to do no more than tear off a special coupon on their latest electricity bill and exchange it at a supermarket or electrical appliance store for up to four long-life light bulbs. The bulbs use 80 per cent less electricity than conventional ones.

Mrs Sophia Albani, the utility's spokeswoman, says: "No cash will change hands. The low-energy bulbs will be charged in instalments on electricity bills over the next year and we'll refund the retailers." The discount for Cretan householders is equivalent to 25 per cent of the retail price for long-life bulbs in Heraklion, the capital.

PPC will pay about Dr40m ($166,000) for a bulk purchase of low-energy light bulbs made by Phillips, Osram and Sylvania – the most reliable brands according to tests carried out by the utility's research department.

To overcome the Cretans' reputation for being conservative consumers, the electricity company is promoting the virtues of low-energy lighting through local television and radio.

Electricity demand is increasing by 8 per cent yearly on Crete, twice the rate elsewhere in Greece.

Demand is highest in the summer months when the population doubles because of tourism and farmers run their irrigation systems at full power.

Resort hotels on Crete, which cater for more than 2m tourists a year, have already adopted energy conservation programmes. Solar panels are used extensively to provide hot water and many hotels request their guests to use the same towel for two or three days in order to reduce electricity consumption by washing machines.

Mrs Judy Spala of Grechotel, the biggest hotel group on Crete, says: "We run a computerised energy control system at some hotels to make maximum use of solar panels. Over 70 per cent of hot water requirements year-round are covered by solar power and we use gas rather than electricity in the kitchens."

To help meet seasonal jumps in electricity demand on islands popular with tourists, PPC has been laying undersea cable linking the Aegean islands with Greece's mainland grid. But Crete lies 60 miles farther south, where the seabed dips too sharply for a submarine link to be feasible.

Crete's two existing power stations, with total capacity of 340 megawatts, barely cover demand even in winter. As a stopgap measure, the plant at Hania in western Crete is due to be upgraded this summer, with an extra 44MW capacity to be provided by replacing two elderly turbines.

The new turbines arrived three months ago but are still in storage because of protests by Hania residents claiming they will increase atmospheric pollution at the diesel-fired plant.

However, PPC officials say they are confident that tendering for the construction of the third power station, a 150MW plant to supply eastern Crete, will go ahead as planned later this year.

Mr George Bamiedakis, PPC's deputy director for Crete, says the new site at Atherinolakkos "is so remote and rocky it's not used for grazing and couldn't be developed for tourism, so we don't think there are serious grounds for local residents to object".

Kerin Hope

NEWS: INTERNATIONAL

Labour challenge on Israeli poll result

By Yaroslav Trofimov in Jerusalem

Israel's defeated Labour party is mounting a legal challenge against the validity of Mr Benjamin Netanyahu's election as prime minister in May, claiming that the number of fraudulent votes was larger than the new Israeli leader's narrow margin of victory.

Mr Yitzhak Rabihiye, the party's Knesset (parliament) faction spokesman, said yesterday checks on 15 per cent of the polling stations had found more than 15,000 discrepancies, mostly ballots cast in the name of people who were abroad or even dead on election day. Mr Netanyahu beat the former prime minister, Mr Shimon Peres, by a mere 29,457 votes.

The checking is being done to strengthen Labour's legal petition, which calls for an official recount of the results and for a new election should its allegations of fraud be confirmed. A Jerusalem district court hearing on the issue is scheduled for Thursday.

Mr Michael Stoltz, the prime minister's spokesman, yesterday refused to comment on the controversy. Other officials in Mr Netanyahu's Likud party have criticised Labour's move as "unwillingness to accept the will of the people in a dignified manner".

According to Mr Stanley Ringler of the Labour party's international department, much of the electoral fraud was perpetrated in the ultra-Orthodox religious neighbourhoods, which voted almost unanimously for Mr Netanyahu, and in other strongholds of the right, including West Bank and Gaza Strip Jewish settlements.

Labour has found an unlikely ally in its appeal against election results – the far-right Moledet party, which advocates the "transfer" of Israel's Arab citizens to neighbouring states.

Moledet, which fell from three to two Knesset seats this year, is angered by Mr Netanyahu's refusal to invite it into the government.

World Bank chief spells out shifts in emphasis in lending policies

Corruption 'undermines aid effort'

By Robert Chote, Economics Editor

Corruption in developing and transition economies is undermining public support for spending on overseas development, Mr James Wolfensohn, the president of the World Bank, warned yesterday.

"When voters think their money is going into a few people's pockets and Swiss bank accounts, that erodes the whole quality of the overseas assistance package", Mr Wolfensohn said in an interview. He added that corruption was a constant concern of non-governmental organisations operating in recipient countries and said he expected it would play a bigger part in debates over development spending.

"Countries that are fundamentally corrupt should be told that unless they can deal with that they are not getting any more money," he said. "That is part of governmental reform."


James Wolfensohn: 'Every step I take there will be criticism'

Mr Wolfensohn said the bank had been studying corruption and possible cures. A year into his controversial presidency, he said people would soon see other shifts of emphasis.

"One area of focus is clearly capacity: helping countries to build their own structure, property rights and judicial systems; the framework which can encourage private sector investment. Financial markets are another clear area."

Mr Wolfensohn said he wanted the bank to give more encouragement to rural industry. "It keeps people out of cities, helps the environment, is less disruptive and keeps the social structure visible".

The bank's lending programme in Russia also showed the growing importance of taking social support into account during periods of economic restructuring. "If they're going to keep their system together the vulnerable underbelly is the social system," Mr Wolfensohn said. He noted that most of the $525m loan recently agreed to help restructure Russia's coal sector would be devoted to social measures.

The bank will also try to encourage private sector investment in poor countries by offering more guarantees to companies entering long-term contracts with governments.

Mr Wolfensohn said this shift of emphasis was being accompanied by a change of the bank's internal ethos. Country managers are encouraged to manage relations with governments more effectively, while the layers of approval required for each project are being cut from five to two.

But Mr Wolfensohn does not expect an easy ride. "Every step I take there will be criticism. If I talk about mundane details, people say I'm neglecting policy. If I talk about policy, they say I'm neglecting the details. And if I try to do both, then they say I'm trying to do too much".

Mr Wolfensohn was visiting London after the Group of Seven summit in Lyons, which endorsed the joint initiative on poor country debt by the Bank and International Monetary Fund. He said the bank had made a financial commitment to it, but success depended on fair burden sharing among creditors.

Mr Wolfensohn felt "pretty confident" of an autumn deal but said "it will be a terrible mistake if it's lost because I don't see how [it could be] put it together again".

Fifa kicks up fresh storm over TV rights

By Jimmy Burns

Fifa, world football's governing body, is facing a new row over its handling of negotiations on World Cup broadcasting rights as it prepares for its annual congress in Zurich tomorrow.

Team, the Lucerne-based marketing arm of the Champions League run by Uefa, Fifa's counterpart in Europe, is claiming that a small group of officials led by Mr Joseph Blatter, the general secretary, has been negotiating the TV contracts in a way that contravenes the commitment the organisation's executive committee gave last month to greater transparency.

The claim threatens to provoke a fresh challenge to Mr João Havelange, Fifa's president, who last month was forced to give way to pressure from members of his executive committee to allow the 2002 Word Cup to be co-hosted by Japan and South Korea.

In a letter to all members of Fifa's executive committee, Mr Juergen Lenz, Team's joint managing director, says that "despite the change in direction" given by the executive committee, "the bidding and evaluation procedure has not changed at all".

The claim is threatening to create fresh political divisions within Fifa between supporters of Mr Havelange and those of his chief rival, Mr Lennart Johansson, Uefa president.

While Mr Havelange has suffered serious damage to his campaign for re-election as Fifa president in 1998 as a result of the co-hosting decision, Mr Johansson will arrive in Zurich this week with his prestige enhanced by the successful staging of Uefa's Euro 96 championships in the UK.

The TV rights for the 2002 and 2006 World Cup have attracted record bids for a football competition, but Team claims it has been unfairly excluded from the bidding.

The highest bid in an initial round of offers – SFr2.8bn ($2.2bn) – is thought to have been made jointly by Sporis, the company owned by the Dassler family, and Kirch, the German media group. Sporis is a majority shareholder in ISL, which has a long-running marketing arrangement with Fifa.

The IMG group is thought to be prepared to bid up to SFr2.7bn and a consortium led by the European Broadcasting Union SFr2.2bn. Smaller offers are thought to have been made CWL Telesport, and ABC/Capital Cities.

East Africa trio in currency link to help business

By Michela Wrong, Africa Correspondent

The currencies of Kenya, Uganda and Tanzania were declared convertible yesterday, as part of the three countries' drive to reduce business costs in the east African region.

High street banks were for the first time quoting the Tanzanian and Ugandan shillings against the Kenyan equivalent, putting an end to the practice whereby customers changing from one African currency into another would first have to convert into dollars.

The move is part of a campaign to revive the East African Community, under which the three former colonies shared a railway, airline and telecommunications system and used the East African shilling, pegged against the British pound.

"This is one of the first steps confirming we're committed to East African co-operation," said Mr Micah Cheserem, governor of Kenya's central bank. "We've talked enough, now implementation is what we are pressing for. The aim is to introduce a single currency in 10 years' time."

Chauvinistic feuding split the community in 1977. Uganda and Tanzania soon started pushing for renewed co-operation but Kenya, the regional trading giant, was only reluctantly persuaded to join forces earlier this year.

Under the new system, Kenyan banks have been instructed to open accounts in Ugandan and Tanzanian shillings and establish links with correspondent banks in neighbouring countries, allowing them to repatriate surplus currency.

If the banks have no such links, the Bank of Kenya has undertaken to repatriate the funds to the appropriate central bank for a fee.

Oil industry in Nigeria hit by 30% budget cut

By Paul Adams in Lagos

A 30 per cent cut in the Nigerian oil industry's 1996 budget will force a sharp drop in spending on upgrading old facilities and drilling new wells for the rest of the year, according to officials at Shell, the country's largest producer.

Refurbishment of Shell's two terminals, Forcados and Bonny, which account for half of Nigeria's exports, may be delayed and a further cut in drilling, already at a very low level, threatens a drop in future output.

International oil companies say that annual investment of nearly $5bn is needed to maintain capacity at 2m barrels a day and to improve environmental standards, which have been criticised in recent years.

The 1996 budget initially allowed $4.4bn for the oil joint ventures, of which state-owned Nigerian National Petroleum Corporation has 57 per cent, with the rest owned by multinational operators. But in mid-June, NNPC told the operators that the ministry of finance had unilaterally cut the overall budget to about $3bn, backdated to the beginning of the year.

It is not clear why the government is cutting back now. So far it has earned about $1bn more oil revenue than forecast in the budget, which was based on an average price of $16 a barrel whereas Nigerian oil has been selling for more than $20 a barrel for part of the year.

The directive has come from the finance ministry, which has wrested control of the industry from the ministry of petroleum and NNPC, which has just announced 3,000 redundancies.

There is no confirmation of revised budgets but the multinationals are now trying to work out where to make savings without harming their operations. There is little room for manoeuvre because the operators award contracts in advance with NNPC approval.

Some projects have spent most of their original budget for the year already, while the most capital intensive projects such as the new gas plants at Escravos and Oso are installing most of their equipment this year.

The main producers – Shell, Mobil and Chevron – want to invest more in Nigeria's oil industry, which accounts for more than 90 per cent of exports, but are limited by the government's contribution to the NNPC share.

The solution, say the oil companies, is for the government to divest some of its share of the joint ventures, lowering their costs more than they would lose in revenue, which comes from high petroleum profit tax and royalties.

So far the government has refused this option, although it did sell 5 per cent of its equity in the Shell operation to Elf Aquitaine in August 1993 for an undisclosed sum.

The reduced budget could increase arrears owed by NNPC to the operators if they are already committed to higher levels of funding. In 1995 the government reduced arrears, but by June this year they had climbed to a total of $450m.

Palestinian group splits from PLO

The Popular Front for the Liberation of Palestine (PFLP) said yesterday it was suspending its membership in the Palestine Liberation Organisation and urged other groups to work to cancel the PLO-Israeli peace deals, Reuter reports from Damascus.

Mr Maher al-Taher, PFLP spokesman, called on Palestinians to rebuild the PLO, saying the PFLP would announce a political initiative to restore the unity of the Palestinians.

Palestinians in April changed their national charter, which included an article calling for Israel's destruction, to meet PLO commitments made under its 1993 peace deal with Israel. The PFLP, led by Mr George Habash, boycotted the meetings of the Palestinian National Conference, or parliament-in-exile, which voted to scrap the article.

Mr Benjamin Netanyahu, new Israeli premier, has ruled out a future Palestinian state.

NEWS: WORLD TRADE

WORLD TRADE NEWS DIGEST

Brussels rejects Japan chip call

The European Commission yesterday rejected a demand by Mr Ryutaro Hashimoto, Japan's prime minister, that the European Union scrap its semiconductor tariffs before being allowed to join talks on chip trade between Japan and the US.

Mr Hashimoto made his demand after the weekend Group of Seven summit in Lyons. However, Mr Yoshihiro Sakamoto, Japan's vice-minister of trade and industry and its chief negotiator on semiconductors, said tariff cuts were not a pre-condition of EU participation in the talks.

"The EU has already made clear its policy choice on removing tariffs," Mr Sakamoto said. "Even if any remain, I consider it both possible and necessary to have the EU involved with us in playing the role that governments should play."

Japan wants the EU to join a "Global Governmental Forum" to discuss liberalisation of semiconductor trade. Tokyo has proposed the forum as a replacement for its bilateral semiconductor trade agreement with the US, which Washington wants renewed when it expires at the end of this month. The EU has threatened not to cut its chip tariffs, and to block plans for a global agreement on information technology trade, if the US and Japan renew their accord. *Guy de Jonquières, London*

Manila complaint against US

The Philippines has complained to the World Trade Organisation about a new US garment import law. "The WTO is our last recourse because the issue is already beyond the control of the US implementing agencies, since the new ruling has been incorporated in a law," according to Mr Escolastica Segovia, executive director of the Garments and Textile Exports Board.

The local garment industry exports 60 per cent of its products to the US and imports most of its raw textiles from Hong Kong and China. The law, which took effect yesterday, credits the source of textiles as the country of origin, even if the processing of the finished product is done in another country.

The new law would classify most Philippine garments as Hong Kong or Chinese garments, thereby squeezing out garments made from the Philippines. *Reuter, Manila*

Latin America TV plan move

Galaxy Latin America (GLA), the US-based direct broadcast satellite company, has inaugurated the second of three regional transmission centres in Caracas, as part of its plan to begin its DirecTV service to Latin America later this year.

Galaxy was formed last year by DirecTV International, Venezuela's Cisneros Group, Mexico's MVS Multivision and Televisão Abril of Brazil as the Latin American provider of the DirecTV service, a direct-to-home digital television service.

DirecTV will offer 140 TV channels, half in Spanish and half in Portuguese. In addition, paying clients equipped with a satellite dish will be able to receive 60 music channels. The transmission originates in Long Beach, California, and is fed in part by programmes from three regional centres in Mexico City, Caracas and São Paulo. *Raymond Colitt, Caracas*

■ Motorola's North Asia Cellular Infrastructure Division has won a $68m contract to expand an analogue cellular phone network in Jiangsu, China. It will increase capacity to 500,000 commercial users from 230,000, making it China's second largest cellular system. *Reuter, Arlington Heights*

■ Czech engineering concern CKD has signed an $8m agreement to sell Belgrade 20 new trams. *AP-DJ, Prague*

Hungary revs up for the fast lane

Foreign car and component makers are building up operations in the country, writes **Virginia Marsh**

Just seven years ago, Hungary produced no cars. It turned out vehicle components but almost exclusively for local truck and bus makers and for Russian Lada cars.

Today, shiny new Astras roll off the production line at General Motors' plant at Szentgotthard in western Hungary. And Audi of Germany has built one of the most modern engine factories in the world in Gyor, 100km to the north – a plant so big its managing director moves around the factory floor by bicycle.

They are just two of a number of western car and component makers to have set up in Hungary since 1990. The sector is one of the fastest growing in Hungary, as the country moves away from steel, machine-building and the other heavy industries that used to dominate the economy.

Audi, the executive car division of Volkswagen, began making engines at Gyor in 1994, exporting them to Germany for installation in its cars. In May it announced Gyor would become its main engine production site, turning out engines not only for its own Audi vehicles but for VW cars and for Skoda, its Czech subsidiary.

Gyor will also assemble as many as 30,000 TT coupés and roadsters, a new model, from 1998. By then, total investment is set to rise to some DM900m ($590m) and the plant will have about 1,800 employees.

Suzuki, too, has a car production venture in Hungary – the only Japanese vehicle maker with such an operation in the former east European bloc. Ford, ITT Automotive and United Technologies are among companies producing components.

This year they are to be joined by Hyundai of South Korea, which recently announced plans to assemble trucks locally, while VAW, part of Germany's Viag group, will open a large cylinder head and engine block plant later this year.

Such moves are revitalising the local components industry and are inducing western manufacturers' traditional suppliers to relocate production locally.

> 'Labour in the sector is one eighth the cost in Germany'

"We got the idea to come to Hungary from Audi," says Mr Alexander Fischer, head of VAW's local operation. "However, our first contract – for 600,000 cylinder heads – came from GM, one of our biggest customers in Europe."

He says VAW is investing about DM80m in the plant and capacity will be a little over 1m units a year. As well as GM and Audi in Hungary, it also hopes to supply other plants in central Europe, such as Skoda in the Czech Republic, and BMW and GM in Austria, both within 300km of Gyor along the new Budapest-Vienna motorway.

The Hungarian government worked hard to attract the first carmakers, giving companies tax breaks and infrastructure development grants.

It took a leading role in bringing Suzuki to Esztergom, a project first discussed in the communist era, helping the Japanese find local partners and itself taking a stake in the venture, which produces the Swift, a small family car.

The project started as a joint venture with Suzuki's main partner, Autokonszern, a consortium of local companies and banks. But Suzuki recently lifted its stake in the company, which initially suffered heavy losses, from 49.9 per cent to 77.7 per cent. Total investment to date is about Ft35bn ($233m).

ITD, the government's inward investment agency, says a main objective now is to target component makers, especially in Germany.

"To remain competitive German companies are just going to have to outsource more production to lower-cost, more flexible manufacturing bases," says a London-based automotive analyst.

"Hungary is ideal because it's close, the country has access to EU markets through its association agreement and labour in the sector is at least one eighth the cost that it is in Germany.

"Just as important is that local labour legislation is not so strict and manufacturers can produce 24 hours a day, seven days a week – something they can't do back home."

Western companies also hope to find new, local components suppliers although, to date, few have met with much success.

Meanwhile, Hungary's domestic vehicle market has been a disappointment, mainly because of austerity measures last year, including a cut of more than 10 per cent in average real wages.

As a result, car sales have dropped – contrary to the regional trend.

GM, for one, does not expect the Hungarian market to recover fully until 1998-99. It announced recently it was cutting its local car production this year by 11 per cent to about 11,000 units, with 3,000 being exported.

But at the same time it said it would lift engine production by 12 per cent to nearly 300,000 this year, with 95 per cent for export, mainly to western Europe and Brazil.

It has already embarked on plans to increase engine capacity to 460,000 units – a project which it hopes to complete next year and which will bring its total investment in Hungary to more than $460m.

Hungary's shiny new car industry

The Audi plant at Györ — Photo: Victor Muser

Latin America in piracy drive

By Alice Rawsthorn

The music industry is launching a campaign against piracy in Latin America, where record companies lost sales of nearly $300m last year through unauthorised cassettes and compact discs.

Latin America is expected to show high growth for the music industry in the next decade but the market is flooded by pirated recordings. The Federation of the Latin American Phonographic Industry, which represents the region's record companies, is mounting an anti-piracy action plan.

The campaign will begin in Argentina, Brazil, Paraguay and Mexico and move on to Bolivia, Peru and Venezuela. It will involve assigning anti-piracy officers to gather evidence for legal cases against the manufacturers and vendors of illegal recordings and training local customs officers.

Piracy is one of the main problems facing the music industry worldwide. The threat is especially acute in the fast growing music markets of south-east Asia and Latin America.

Until now the industry has concentrated its anti-piracy efforts in Asia, particularly in China where unauthorised recordings have emerged as a thorny issue in trade negotiations with the US. The new initiative marks a concerted attempt to highlight the problem in Latin America.

The latest figures from the International Federation of the Phonographic Industry suggest that some $298m worth of unauthorised recordings were sold in Latin America last year, against legitimate sales of $2.05bn. Both Brazil and Mexico were among the 10 largest music piracy markets.

The main area of difficulty is cassettes, where pirated products accounted for 73 per cent of sales in 1995, against 3 per cent for compact discs, the main area of piracy in Asia.

Paraguay is the main source of these illegal cassettes, according to the Federation of the Latin American Phonographic Industry.

Insurers protest at standard of ship crews

By Charles Batchelor, Transport Correspondent

The poor level of crew skills is pushing up the repair bill for many merchant ships and their insurers, the London-based Salvage Association said yesterday.

Claims for engine damage, which are particularly costly because they involve specialised parts, currently account for 35 per cent of total claims against hull and machinery underwriters and are increasing, the association said in its annual report. The association carries out damage inspections for Lloyd's of London and the Institute of London Underwriters.

"The standard of crews who are maintaining and operating machinery at sea leaves a great deal to be desired," said Mr David Sherval, chief surveyor. "Some owners pay less attention than they should to the competence of the people they employ and the directions they give them."

New standards for raising levels of crew skills have recently been agreed by the International Maritime Organisation, but it will take time for these to have any effect, the association said.

Common problems facing crews are the lack of a common language or the inability to understand either English or German, the main languages for instruction manuals.

Maintenance standards are often very lax. The crew of one vessel questioned by a salvage association surveyor had no maintenance records because they had been removed by the vessel's previous owners.

They also had no oil analysis reports or record of how long the engine had run since its last overhaul.

Crews put together to deliver vessels from the shipyard can be a source of concern. One ship sailing from Europe to South America had a crew of four. The master doubled as chief engineer even though he had no qualifications for the job. The cook had never been to sea and had no common language with any other crew member. A third crew member had a history of mental illness.

The costs of mechanical failures could be very high, the association said. One owner incurred a bill for $8m when a loose bolt short-circuited safety systems controlling lubrication, damaging the three main engines of a container ship.

US purchasing index shows strong rebound

By Michael Prowse in Washington

The US Purchasing Managers' Index rose to its highest level in 16 months in June, signalling a strong rebound of economic activity in the manufacturing sector.

Separately, the Commerce Department yesterday reported buoyant growth of consumer spending in May – another sign the economy is gaining momentum.

The figures were released as Federal Reserve governors and regional presidents prepared for a policy meeting today and tomorrow to debate interest rate strategy.

On Wall Street most economists are now assuming the Fed will not signal an immediate increase in short-term interest rates, although many still expect a tightening of monetary policy later this summer.

Purchasing managers said their index – closely watched as a guide to cyclical economic trends – rose to 54.3 per cent last month against 49.3 per cent in May. This was the highest level since February last year and well above the Wall Street predictions of an increase to about 51 per cent.

The index has climbed above 50 per cent – the threshold for expansion in manufacturing industry – only twice in the past year. Earlier this year growth of manufacturing output was depressed because companies were cutting production to reduce excessive stocks of unsold goods.

Mr Ralph Kauffman, a spokesman for purchasing managers, said companies surveyed were "very optimistic" about business conditions. The association's index of new orders rose sharply from 52.4 per cent in May to 61.3 per cent, its highest level since November 1994.

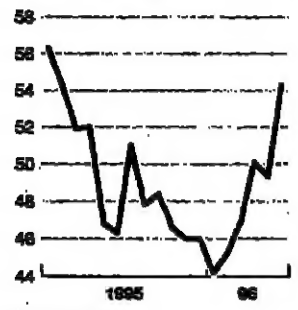
Consumer spending rose 0.8 per cent in May, easily outstripping a 0.4 per cent increase in personal incomes. However, the pattern of spending was distorted by tax payments which fell last month, boosting disposable incomes, following a sharp rise in April.

Until recently many economists expected the Fed to respond quickly to signs of accelerating growth. But the balance of opinion shifted late last week and analysts now believe the Fed is likely to defer a decision on rates until its next policy meeting in late August.

By waiting for the release of more economic data, the argument runs, the Fed will be better able to judge whether rapid economic growth in the second quarter has carried over into the third quarter.

Mr Alan Greenspan, the Fed chairman, would also have an opportunity to lay the ground for a possible tightening of policy in his twice-yearly monetary testimony to Congress later this month. The disadvantage of waiting, however, is that the Fed might find itself forced to raise rates during the final stages of the presidential election campaign.

US Purchasing Managers' Index



Source: Datastream

Centrist wins in Dominican Republic

Heading for the presidency: Fernández celebrates Picture: Reuter

By Canute James in Kingston

Mr Leonel Fernández, a 42-year-old lawyer, will be installed as president of the Dominican Republic next month, succeeding Mr Joaquín Balaguer, who has dominated the politics of the Caribbean country for most of the past 30 years.

Mr Fernández, a centrist who leads the Liberation party, received 51.25 per cent of the votes in the second round run-off election on Sunday, against 48.75 per cent for Mr José Francisco Peña Gómez, the candidate of the social democratic Revolutionary party, according to the electoral council. With 99.7 per cent of the votes counted yesterday, Mr Fernández's lead was unassailable, said electoral officials.

The result is a setback for Mr Peña Gómez, a former mayor of Santo Domingo, the capital, who was making a third try at winning the presidency.

In the first round of voting six weeks ago, he took 46 per cent of the vote, with 39 per cent going to Mr Fernández.

The Liberation party candidate's improved showing on Sunday was the result of support from Mr Balaguer. The retiring president's Reformist party threw its backing behind Mr Fernández in a clear effort to keep Mr Peña Gómez from the presidency.

Mr Balaguer, a blind octogenarian, was forced to cut short his seventh term and stand down, after local opposition parties and foreign observers had contended that his victory over Mr Peña Gómez by less than 1 per cent of the votes in 1994 was achieved by systematic fraud.

Aides to Mr Fernández maintain that he is "his own man", and will pursue his own policies. Even so, his victory gives Mr Balaguer continuing and strong influence over the Spanish-speaking country of 7.5m people, which shares the island of Hispaniola with Haiti.

The Liberation party has few representatives in the legislature and the incoming president's policies will have to be approved by Reformist lawmakers who are beholden to Mr Balaguer.

In contrast to the 1994 election, local and foreign observers, including Mr Jimmy Carter, a former US president, declared the result of the latest poll to have been unaffected by a few instances of poor administration.

Mr Peña Gómez's aides claimed yesterday that there were "a few cases" of fraud, but could not say whether the losing candidate would contest the result.

The campaign adversely affected business and industry in the country, with business leaders saying many companies had spent significant amounts supporting the candidates' campaign. Foreign investors had delayed committing themselves to ventures in the country, and will not do so until after Mr Fernández's term has been inaugurated on August 16, they said yesterday.

The campaign was clouded by allegations of racism against opponents of Mr Peña Gómez, who is black, and by fatal clashes of party factions.

Court sidesteps race targets – for now

The US Supreme Court, on a technicality, has refused to hear a controversial case on race-based school admission, leaving intact a lower court ruling which had struck down racial "targets" for a public university, AFP reports from Washington.

Justice Ruth Ginsburg, writing for the court, said that the case involving the University of Texas Law School was moot because the school had discontinued its admissions policy.

The case had been seen as a big test for "affirmative action" policies in several states of the US which give preferences to minorities in an effort to compensate for prior discrimination.

Justice Ginsburg wrote that the matter was "an issue of great national importance", but said the court would "await a final judgment" on a programme genuinely in controversy before addressing the important question raised."

The Texas vs. Cheryl Hopwood case involves one white woman and three white men who claimed they were passed over for admission to the state law school, even though they had higher test scores than some minority applicants who were accepted.

A federal appeal court in New Orleans invalidated the admissions policy, ruling that the enrolment "targets" of at least 10 per cent Mexican-Americans and 5 per cent blacks were nothing more than "quotas", those having been ruled unconstitutional in the past.

Under the law school's policy, whites needed a score of 199 on an admissions test to be accepted, but blacks and Mexican-Americans needed only 189.

After the suit was filed, Texas state officials announced they would discontinue the policy establishing numerical targets, but would take race and ethnicity into consideration in an unspecified way.

The US Justice Department had urged the Supreme Court to deny hearing an appeal by Texas against the appeal court decision.

Attorneys for the state of Texas said the case had "more than a touch of irony" because the law school's policy banning admission of blacks had been overturned in 1950 by the Supreme Court and the state's school system had been under court supervision to remedy unconstitutional segregation.

The state claimed that, if racial preferences cannot be applied, the law school would have "at most, a handful of blacks and Mexican-Americans out of more than five hundred students", in a state where some 40 per cent of the population is made up of minority members.

Menem discounts victory by Radicals' De la Rúa

Buenos Aires mayoralty secured by opposition

By David Pilling in Buenos Aires

Argentina's long-subdued Radical party has dealt Peronism its worst electoral defeat since 1983, having easily won the mayoralty of the capital, Buenos Aires.

The Radicals' Mr Fernando De la Rúa will become the first elected mayor of the federal capital, after confirmation yesterday that he had taken nearly 40 per cent of the vote on Sunday. Mr Jorge Dominguez, the current unelected mayor and Peronist candidate, received only 18 per cent, well behind Mr Norberto La Porta of the centre-left Frepaso alliance, who polled 26.5 per cent in second place.

Mr De la Rúa interpreted his victory, which was bigger than expected, as a rejection of the national government of President Carlos Menem. "This should not be seen as the end, but as the beginning," he said, referring to the Radical party's rekindled hopes for the 1999 presidential election. "The people want a new style of government... with more honesty and more transparency."

Mr Menem sought to play down the defeat: "We lost an election in a city that has always been antagonistic to Peronism. This was not a national election, nor one for the province of Buenos Aires. Last year, we lost in the capital, but won in the province and in the nation by more than 20 points. That's the only election that counts."

Even so, Peronist officials were yesterday beginning an election post-mortem, with many blaming the scale of the defeat on recent corruption scandals and on Argentina's economic difficulties, particularly a jobless rate of 17.1 per cent. The loss threatens to renew internal bickering in the party as it casts around for a scapegoat.

A parallel election for a 60-member commission that will draw up the constitution for the newly autonomous Buenos Aires was won by Frepaso under the leadership of Senator Graciela Fernández Meijide. She has now established herself as a political figure of national importance, who could well contest Frepaso's presidential nomination in 1999.

Mr De la Rúa, long established in the Radical hierarchy, may also use what will be the prominent position of the capital's mayor to launch a presidential bid. Only last year, the Radicals were humiliatingly beaten into third place in general elections. Yesterday, though, and somewhat prematurely, Mr Rodolfo Terragno, Radical party president, was already predicting the "beginning of the end of Menemism".

US anti-Cuba law feeds businessmen's paranoia

Threat of penalties against foreign investors adds new strain of suspicion and mistrust to an already cloak-and-dagger world, writes Pascal Fletcher

No matter what time of year it is in Cuba, the climate for business remains the same. The 35-year-old impasse between Cuba and the US has created its own atmosphere of mistrust, suspicion and paranoia, which persists well after the end of the cold war.

To this claustrophobic cloak and dagger community a new strain of paranoia has been added: the Helms-Burton Syndrome.

The cause is the law of that name introduced by Washington in March, which threatens penalties against foreign investors in Cuba judged to be "trafficking" in confiscated property formerly owned by US nationals or Cuban exiles who became US citizens.

The threatened sanctions have sent many foreign businessmen in Cuba scrambling for cover with some now displaying the symptoms: an almost pathological fear of the press and a virulent aversion to making public statements about their business on the island, real or planned.

"These are not easy days. A lot of people have got butterflies in their stomachs," one Canadian business executive said.

A British company, E.D.& F. Man Sugar, which helped finance Cuba's 1995-96 sugar harvest, has taken down the company sign on its Havana offices for "repainting".

Brazilian cigarette maker Souza Cruz had been reported to be planning a big ceremony in June, complete with top executives from its British parent company BAT Industries, to mark the start of its cigarette joint venture in Cuba. It settled instead for a small, low-key event to which no members of the working press were invited.

A British business delegation visiting in June cancelled its scheduled news conference, apparently because its leader did not want to face questions about his company's business interests on the island.

After weeks of rumours about shadowy blacklists, the US, despite international condemnation, fired its first shots. It sent letters to three companies from Canada, Mexico and Italy warning that they could be subject to Helms-Burton sanctions.

Senator Jesse Helms: Rightwing co-sponsor of controversial US legislation

The letters come while foreign businessmen's nerves are already jangling from a "Hall of Shame" list circulating Miami and Havana purporting to identify 275 foreign companies from 32 nations "doing business" with Cuba. However the list, compiled by the Cuban American National Foundation, a powerful right-wing Cuban exile organisation in Miami, mentions that many of the companies on the list are not actually operating in Cuba, although they may have discussed projects.

But not all foreign executives in Cuba have succumbed to the threat of sanctions and publicly state their defiance. Executives from Spain's Sol Meliá hotel chain said in May they would not only expand their business in Cuba but, if targeted by the US, they would relinquish their hotel properties in Florida.

Canada's Sherritt International Corporation, which has a big nickel mining venture in Cuba, as well as interests in oil production, farming and tourism, has declared "business as usual" at its Cuba operations and sent a letter to employees urging them to "keep the faith".

Not many small aircraft are seen flying over the Havana skyline since the shooting down by Cuba of two US aircraft in February, to which Washington retaliated by introducing the Helms-Burton bill. But one that frequently does is the executive Lear Jet carrying Sherritt chairman Ian Delaney, who maintains close contacts with Cuban officials.

Mr Fidel Castro's government has pledged to help protect its partners from the Helms-Burton law, starting with a policy of restricting information on foreign investment. It is also dusting off old property registers so investors can see whether they are vulnerable or not, and is helping them with advice on how to restructure their Cuba holdings, possibly using offshore centres on neighbouring Caribbean islands.

Power of Vietnam's leaders criticised

By Jeremy Grant in Hanoi

A lone delegate at Vietnam's Communist party congress yesterday stunned the ageing political leadership by strongly criticising its accumulation of sweeping powers.

Minutes before a packed hall of delegates was due to confirm the creation of a politically enhanced "super politburo", Mr Hai Than, a retired official from Ho Chi Minh City, surprised the normally rubber-stamp congress by urging party members to clip the wings of the new politburo "standing committee".

"It doesn't have the right to decide these things," he said to wide applause from the floor. He added that it was "not democratic".

The "standing committee" is new in Vietnam's political structure and has been created by the country's troika of ageing leaders – Mr Do Muoi, general secretary, 79, President Le Duc Anh, 76, and reformist Prime Minister Vo Van Kiet, 73 – to act as a brake on a rapid transfer of power to a younger generation.

President Anh suggested a show of hands in response to Mr Hai Than's intervention which resulted in a majority in favour of transferring the extra powers instead to the existing 18-member politburo, the party's main policy-making body.

The move does not alter a policy of cautious reform set out in the party's policy blueprint for the next five years. But it has shaken a political establishment based on carefully crafted consensus and party loyalty.

It also highlights the generational fissures that have emerged as the ruling troika tries to balance a stated need to co-opt young blood into an ageing structure.

Many of the delegates had apparently harboured doubts about the "standing committee" during the congress, but none had dared speak out. "Everybody had been thinking about this problem but nobody said anything until Mr Than stood up," said one delegate. "We agreed before in the congress that the standing bureau is not another level of power."

Divisions pervade the Communist party as it tries to manage changes wrought by foreign influences, increased economic openness and a recognition that it must keep pace with the outside world.

"The more they want to open up, the more they want to control," said one European diplomat.

As it closed, the congress also set the seal on gradual reform, shunning hard decisions on the reform process in favour of increased state sector involvement in the economy. The congress also confirmed that "party cells" should be included in all foreign joint ventures.

Under a newly approved five-year plan, the new administration of conservatives, reformists and the military will oversee the continuation of gradual reforms and the bolstering of the state sector "as the foundation of the economy".

Do Muoi, Vietnam's Communist party secretary, trying to get reporters to pose with him for a group photograph yesterday Reuter

Hashimoto rides high from G7 to testing times at home

As Ryutaro Hashimoto's motorcade negotiated the crowded motorway from Haneda airport to central Tokyo on his return from a successful Group of Seven meeting in Lyons, the Japanese prime minister was no doubt hoping that a strong performance at his first G7 summit since taking office seven months ago would strengthen his hand at home. In the next few months, his three-party coalition will face its greatest test of unity to date – a much anticipated decision over US forces in the southern island of Okinawa.

Unlike his Socialist predecessor, the tentative Mr Tomiichi Murayama, the Japanese leader has demonstrated initiative on the international stage, where he has always appeared more confident than in the back rooms of Tokyo's domestic politics.

Rather than sitting mutely on the sidelines, the Japanese leader seized his background papers from officials to present to fellow G7 leaders and to win their support for proposals to reopen dialogue between North and South Korea, to improve international co-operation on social welfare and to recycle savings from United Nations reform as development aid. He presented another Japanese initiative, for a global plan to remove land mines, "very effectively", said Mr Mike McCurry, White House spokesman, a rare compliment.

True to previous form as a tough trade negotiator when minister of trade and industry, Mr Hashimoto went on in a bilateral meeting with US President Bill Clinton to harden his stance in the latest dispute with the US, over access to the Japanese semiconductor market, by warning that it must not be allowed to undermine their good relations.

A Japanese official, delighted with Mr Hashimoto's G7 performance, described him as a prime minister with one of the highest international profiles since Mr Yasuhiro Nakasone, famed for being one of the few Japanese leaders to chat to a US president on first-name terms. He also won plaudits from the Keidanren business federation and the Japanese press.

Certainly, Mr Hashimoto did much to counter traditional criticism that Japan makes little intellectual contribution to international debate, for all its generosity as the world's largest aid donor. This will reinforce Japan's recently revived campaign for a permanent seat at the United Nations Security Council and further strengthens the already formidable credentials of Mrs Sadako Ogata as a candidate – should she be interested – as the next UN secretary general.

Mr Hashimoto's vigorous diplomacy marked a clear break with a low-profile past. Yet there is no evidence that he convinced his G7 partners that his strong leadership makes Japan's fourth coalition government in three years any less unstable than its predecessors.

A final decision on Okinawa, due in an extraordinary session of parliament expected in October, could easily cause the leftwing Social Democratic party (SDP) to walk out of the coalition. Mr Nakasone warned in a television interview over the weekend. That would deprive the government of a majority and force a general election not legally required until next July.

Hashimoto: tough negotiator

The government needs parliamentary approval later this year to oblige 3,000 Okinawan landowners to renew leases, due to expire next May, on land occupied by the US military. Mr Hashimoto cannot afford to let these leases expire. Okinawa, the largest US base in Asia, is the linchpin of the security alliance with the US, central to Japanese foreign policy.

And yet the SDP cannot afford to acquiesce in the leases' renewal. Okinawa is one of the few areas where Socialists are strong. Their support elsewhere has crumbled over the past two years, when the party leadership abandoned cherished policies – such as opposition to the security alliance – to assure the SDP's place in the ruling coalition with Mr Hashimoto's Liberal Democratic party.

Until recently, the SDP was reluctant to face an election, knowing that it would pay a heavy price for this marriage of convenience, but the feeling in Okinawa is so strong that political analysts in Tokyo suspect that for once, the party may make a stand.

But before the Okinawa debate comes to a showdown, Mr Hashimoto needs to move fast on economic policy. Gross domestic product grew at its fastest rate for nearly a quarter of a century in the three months to March, but unemployment continues to climb, hitting a record 3.5 per cent in May, a more than usually serious liability for the government when elections are in the air.

Mr Hashimoto, who said he was "gravely concerned" at the jobless figure, is to hold a cabinet meeting to discuss economic policy on Friday. LDP officials say he aims to decide by the end of this month whether to prepare another public spending package, possibly worth Y3,000bn ($27.35bn), to start in the autumn, when spending from the previous package, Y14,220bn last September, will begin to run out. That promises to open another political battle. When asked about plans for a spending package, Mr Wataru Kubo, finance minister, warned that cutting the budget deficit must be the priority.

Mr Hashimoto could be forgiven for feeling that his bravura in Lyons felt like a holiday compared with what now awaits him at home.

William Dawkins

S Africa's Taiwan ties irk Beijing

By Laura Tyson in Taipei

Mr Alfred Nzo, South Africa's foreign minister, will today hold talks with Taiwan's President Lee Teng-hui amid increasing signs of diplomatic pressure from Beijing on Pretoria to abandon its formal ties with Taiwan.

South Africa is Taiwan's biggest diplomatic ally but this relationship could be threatened as Beijing tightens the screws on Pretoria, caught between loyalty to Taipei and a desire not to lose out on China's growing economic strength.

It is understood that Beijing is threatening to refuse South Africa permission to maintain its consulate in Hong Kong after the British colony reverts to Chinese rule in July next year unless Pretoria severs formal diplomatic ties with Taipei.

Pretoria is anxious to establish formal ties with Beijing but not at the expense of breaking off those with Taipei.

Mr Nzo, in Taiwan on a "fact-finding trip", will try to forge a workable balance in his country's relations with both the island and China.

Yesterday he held talks with Mr Wang Chih-kang, Taiwan's economics minister. "We have had very interesting discussions, very successful, very friendly discussions," said Mr Nzo, who also met Mr Lien Chan, the premier.

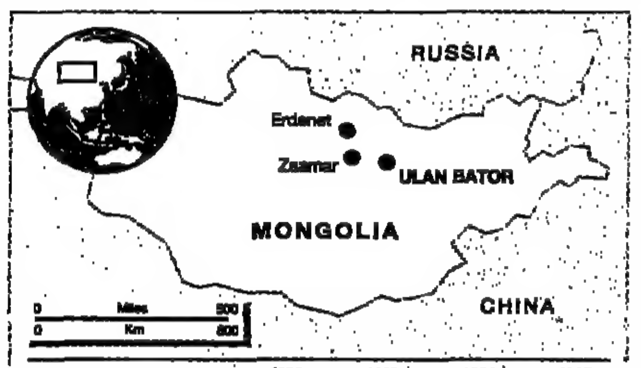
At the weekend, Mr Nzo said before leaving for Taiwan: "South Africa wishes to maintain and expand its friendly and cordial relations with both Taiwan and mainland China."

Beijing rejects the notion of dual relations with the "two Chinas" and has forced other countries similarly placed to choose between the two sides of the Taiwan strait. Since Beijing took over Taipei's seat at the United Nations in 1971, Taipei has lost allies and now has diplomatic ties with just 31 mostly small countries.

Taipei has warned it will withdraw investments and economic aid from South Africa if Pretoria bows to Beijing. In 1994, a Taiwanese trade and investment delegation signed 25 agreements worth $310m with South African companies, including loans and technical co-operation. Taiwan has also been planning an industrial zone in South Africa that would house 20-40 big Taiwan manufacturers.

China's market offers greater potential in the long term but at R5.8bn ($1.3bn) in 1995, South Africa's trade with Taiwan is double that with China.

However, exports to China doubled last year to R1bn. Exports to Taiwan grew to R2.5bn.



	1990	1992	1994	1995
Exports ($m)	660.7	388.4	367.5	511.5
GDP growth (%)	-2.5	-9.5	2.3	6.3
Inflation (%)	n.a.	325.5	66.3	53.1
Unemployment ('000)	n.a.	54.0	74.9	45.1
Total foreign aid ($m)	n.a.	200.4	182.9	296.5

Source: Mongolian government

Former communists to lose power in 90% voter turnout

Liberals elected in Mongolia

By Peter Montagnon, Asia Editor, in London

Mongolia's liberal opposition, the Democratic Union Coalition, swept to a landslide victory in yesterday's general elections, ousting the former communists who have held an iron grip on parliament since the democratic reforms of 1990.

With counting in five seats still unfinished, the coalition had taken 48 seats in Ulan Bator's Great Hural, as the parliament is known, compared with just six previously. The outgoing Mongolian People's Revolutionary party (MPRP) saw its total collapse from 70 to 33.

The result is a resounding rejection of the former communists just as their economic reforms were finally beginning to bear fruit. After several years of sharp contraction in the early 1990s the economy grew by 6.3 per cent last year and inflation this year is expected to be only around 35 per cent, one tenth of the rate in 1992.

The MPRP had approached the election confident of victory, and the scale of its defeat yesterday surprised diplomats, but Mongolia seems to be another example of a country where public perception of the economy is different from the picture portrayed by official statistics.

"International organisations report that things are getting better," said Mr Amaracanaa, an opposition commentator and former editor of the Democracy newspaper. "But in reality life is getting worse and worse for individuals because of high unemployment and poverty."

The MPRP government was also increasingly unpopular because of the prevalence of corruption among senior officials and because its commanding majority stifled policy debate, Mr Amaracanaa said.

"We have a heavy task on our shoulders but we are happy that the task is on us," said Mr Gonchigdorj, leader of the Social Democratic party, the junior coalition partner.

The coalition is expected to take some weeks to finalise its government, because of the lengthy selection and approval procedures for ministers laid out in the constitution.

Partly for that reason it was making only limited comments yesterday, but the new government is expected to include the fight against corruption, and accelerated free market economic reform, among its priorities in the hope that private investment will create employment opportunities.

"They will make it easier for foreign companies to invest and they may actually improve the tax position of foreigners in Mongolia," said Mr Alan Sanders, a specialist at London's School of Oriental and African Studies.

The MPRP declined formal comment, but one official seemed ready to acknowledge defeat. "This is the choice of the nation," he told Reuters news agency. "I would like to congratulate our young people, but they have to keep their promises."

Observers said the elections, the second since the democracy reforms, were free and fair, with a turnout of almost 90 per cent, which means that democracy is now properly established in Mongolia. Voting patterns appear to have followed generational lines, with younger people voting for the coalition and older people sticking with the MPRP.

But in a country where 70 per cent of the 2.3m population is under 30, that gave the former communists little chance.

Beijing spurns Hong Kong petitioners

By John Ridding in Hong Kong

Chinese security officials yesterday turned back a group of Hong Kong politicians who had flown to Beijing to deliver a petition opposing China's plan to disband the territory's legislature.

Pro-democracy groups in Hong Kong condemned the move, saying it demonstrated Beijing's refusal to listen to dissenting voices in the territory, which returns to Chinese sovereignty in July next year.

"This is a reminder that Beijing continues not to understand the kind of society that Hong Kong is," said Mr Martin Lee, leader of the Democratic party, the largest group in the territory's elected legislature. "It tells the world that Beijing's leaders will only listen to people who tell them what they like to hear."

Mr Andrew Cheng, a democratic legislator and one of the eight-member delegation seeking to deliver the petition of more than 50,000 names, claimed that China's actions showed it had a blacklist of democratic supporters in Hong Kong. He said that after the aircraft landed in Beijing security officials had boarded with lists of names, delaying passengers while they were checked.

Other Hong Kong politicians, however, criticised the attempt to deliver the petition after Chinese officials had warned against the journey at the weekend. Mr Allen Lee, leader of the pro-business Liberal party, described the move as a publicity stunt and said the result was to have been expected.

Despite these divergent views, the incident underlined problems posed by Beijing's plans to replace the territory's legislature, which was elected last year under democratic reforms implemented by the governor, Mr Chris Patten. The issue has become the main obstacle to a smooth transition and the focus of strains between Beijing and London and the Hong Kong government.

Mrs Anson Chan, Hong Kong's chief secretary, said that Beijing's plans to scrap the Legislative Council had created "clear concerns". In an otherwise optimistic analysis of the territory's post-1997 prospects, published in the South China Morning Post, she said that "a legitimate and truly representative legislature will do much to give confidence to the people of Hong Kong and to international investors".

The Hong Kong government said that yesterday's events were a matter between China and the people concerned. But a spokesman said: "We are surprised that people travelling on valid PRC-issued travel documents have not been permitted to enter China." One western diplomat in Hong Kong criticised the handling of the incident. "It was heavy handed," he said. "It would not have been difficult to have arranged a receipt of the petition."

AP-DJ adds: The Hong Kong General Chamber of Commerce said yesterday it had written to senior Chinese officials about concerns over the legal basis of cross-border decisions after next July, when Hong Kong becomes a special administrative region of China.

China's ruling Communist Party turned 75 yesterday, marking the occasion with triumphalist editorials in the party-controlled press combined with strong warnings to wayward officials to adhere to the "correct" socialist path, Tony Walker writes from Beijing.

China's 57m party members were urged in a commentary in People's Daily, the party newspaper, to pay closer attention to politics as the basis for economic reforms. "No economic reform will be successful without a strong political back-up," said President Jiang Zemin. "Only by sticking to politics can we encourage and unite all the Chinese people to strive for the economic and social development goals set by the party and the country."

The Communist party's 75th birthday – it was founded in Shanghai in July 1921 – coincides with signs of deepening uncertainty in party ranks about the way ahead. Marxist ideology has been widely discredited, but Chinese authorities have yet to develop a new model. China leaders are seeking to bolster higher ethical standards among the country's legions of officials, or cadres, as an antidote to loss of faith in the system; but this is not proving easy during a period of rapid economic and social change which is highlighting corruption.

ASIA-PACIFIC NEWS DIGEST

China to ease mining curbs

China plans to allow domestic companies to transfer mining rights to overseas investors in a move that may help to unlock restrictions on foreign investment in the mining sector. China Daily reported that amendments to a law defining the legal status of foreign mining companies had been submitted to the National People's Congress, or parliament, for approval.

The government would set up a "market mechanism" for the buying and selling of exploration and excavation rights, the paper quoted Mr Jian Chengsong, vice-minister of geology and minerals resources as saying. But China has not resolved difficult issues relating to royalty payments and terms for foreign involvement in mining ventures and this is proving a severe drag on investment. *Tony Walker, Beijing*

Asean plans $15bn gas pipeline

Ministers from the Association of South East Asian Nations appealed yesterday for private sector participation in an ambitious $15bn project to create a regional gas pipeline. In a joint statement, the seven energy ministers said they regarded as feasible the idea of a Trans-Asean Gas Pipe System, which would require linking some existing pipelines and building new ones. The statement also said private sector involvement should be encouraged.

Mr Anwar Ibrahim, Malaysia's deputy prime minister, said total gas demand in Asean countries would jump more than six-fold to 150m tonnes of oil equivalent by the year 2020 from 23m tonnes now. No details emerged on a timescale or possible route for the proposed pipeline. *James Kynge, Kuala Lumpur*

Japanese car sales increase

Japan's car industry appears to be sharing in the economic recovery, with sales rising an adjusted 5.3 per cent in June from the same month last year, the Japan Automobile Dealers' Association said yesterday. Sales totalled 441,316 vehicles in June, which had 20 selling days, compared with 461,119 vehicles sold in 22 selling days of June 1995, given daily sales of 22,066 compared with 20,960 in June last year. Officials said that several new models, such as the Mitsubishi Challenger, to be launched today, and a new car from Toyota next month should help to lift sales. *Reuter, Tokyo*

Tamil rebels kill 29 soldiers

Tamil Tiger guerrillas yesterday killed 29 Sri Lankan soldiers in the biggest battle on the island for more than three months which left at least 35 rebels dead, a military spokesman said. The action launched by the Liberation Tigers of Tamil Eelam was fought near Trincomalee, Sri Lanka's main eastern port, about 240km north-east of the capital Colombo, the spokesman said. *Reuter, Colombo*

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	13.6	8.1	6.49	7.67	3.43
1987	11.6	6.5	6.82	8.39	3.12
1988	4.2	5.4	7.65	8.84	3.61
1989	1.0	4.2	8.99	8.50	3.43
1990	3.6	5.5	8.06	8.55	3.60
1991	6.0	3.7	5.87	7.86	3.21
1992	12.4	2.0	3.75	7.00	2.95
1993	11.6	1.2	3.22	5.86	2.78
1994	6.2	1.4	4.67	7.08	2.86
1995	-0.3	2.1	5.93	6.57	2.61
3rd qtr.1995	-0.6	3.0	5.79	6.32	2.53
4th qtr.1995	-1.8	4.0	5.73	5.89	2.38
1st qtr.1996	-2.4	5.3	5.30	5.89	2.21
2nd qtr.1996			5.42	6.70	2.18
July 1995	-0.5	2.4	5.80	6.26	2.55
August	-0.5	3.1	5.82	6.50	2.55
September	-0.9	3.5	5.74	6.19	2.48
October	-1.5	3.7	5.81	6.03	2.46
November	-1.7	3.9	5.74	5.93	2.42
December	-2.1	4.4	5.63	5.71	2.24
January 1996	-2.6	4.6	5.42	5.64	2.26
February	-2.7	5.1	5.15	5.81	2.17
March	-1.9	6.0	5.31	6.26	2.19
April	-2.4	5.9	5.38	6.50	2.20
May	-2.5	5.3	5.39	6.72	2.18
June			5.48	6.90	2.17

JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	8.2	5.12	5.35	0.84
1987	10.5	11.5	4.15	4.64	0.55
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.8	5.31	5.16	0.48
1990	2.6	8.5	7.62	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	-0.4	4.26	5.24	1.00
1993	3.0	1.4	2.83	4.18	0.87
1994	5.4	2.9	2.12	4.20	0.78
1995	8.2	3.2	1.12	3.39	0.86
3rd qtr.1995	8.6	2.8	0.66	3.05	0.86
4th qtr.1995	12.9	3.2	0.43	2.86	0.81
1st qtr.1996	15.5	3.1	0.49	3.16	0.76
2nd qtr.1996			0.49	3.24	0.72
July 1995	7.2	2.9	0.80	2.91	0.91
August	8.6	2.9	0.71	3.25	0.85
September	8.9	2.8	0.46	2.97	0.82
October	12.1	2.7	0.41	2.89	0.83
November	13.9	3.4	0.44	2.86	0.83
December	12.8	3.2	0.42	2.86	0.77
January 1996	14.7	3.1	0.45	3.10	0.75
February	15.7	2.8	0.50	3.19	0.75
March	16.1	3.1	0.51	3.18	0.77
April	15.3	3.0	0.49	3.23	0.71
May	15.6	3.3	0.52	3.28	0.72
June			0.46	3.19	0.71

GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	9.9	7.3	4.64	5.90	1.79
1987	9.0	7.3	4.03	6.14	2.21
1988	9.8	6.4	4.34	6.46	2.81
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.66	2.11
1991	5.1	5.6	9.25	8.42	2.38
1992	7.1	8.2	9.52	7.80	2.45
1993	9.4	7.9	7.28	6.47	2.11
1994	9.6	9.0	5.36	6.86	1.77
1995	3.7	-0.0	4.53	6.82	2.00
3rd qtr.1995	3.2	-0.7	4.41	6.68	1.98
4th qtr.1995	4.9	1.3	4.01	6.32	2.02
1st qtr.1996	9.5	5.4	3.45	6.17	1.89
2nd qtr.1996			3.33	6.47	1.87
July 1995	2.9	-1.2	4.56	6.79	2.01
August	3.4	-0.8	4.46	6.71	1.97
September	3.5	-0.1	4.19	6.58	1.96
October	4.0	0.4	4.09	6.55	2.04
November	4.4	1.0	4.01	6.32	2.04
December	6.3	2.5	3.94	6.07	1.97
January 1996	8.2	3.7	3.62	5.90	1.88
February	9.7	5.9	3.35	6.18	1.86
March	10.6	6.7	3.36	6.44	1.91
April	10.6	6.8	3.33	6.39	1.88
May	10.4	7.5	3.29	6.45	1.87
June			3.38	6.57	1.84

FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	6.4	7.79	8.36	2.65
1987	4.1	11.5	8.63	9.46	2.75
1988	3.9	8.3	7.94	9.08	3.69
1989	7.6	10.0	9.40	8.79	2.88
1990	3.8	9.3	10.32	9.92	3.19
1991	-4.9	2.4	9.62	9.03	3.58
1992	-0.2	6.4	10.36	8.57	3.56
1993	1.6	-2.2	8.55	6.75	3.21
1994	2.7	0.8	5.84	7.21	2.99
1995	8.9	5.1	6.60	7.53	3.17
3rd qtr.1995	3.3	3.9	6.12	7.35	3.11
4th qtr.1995	8.9	5.1	6.14	7.10	3.25
1st qtr.1996	8.6	3.7	4.47	6.55	3.10
2nd qtr.1996			3.96	6.51	3.02
July 1995	0.5	3.0	6.44	7.42	3.09
August	1.3	3.9	5.96	7.30	3.06
September	3.3	3.9	5.98	7.34	3.19
October	0.0	3.0	6.69	7.47	3.31
November	2.1	3.9	5.90	7.06	3.20
December	8.9	5.1	5.60	6.76	3.23
January 1996	4.8	4.1	4.70	6.44	3.06
February	4.7	3.3	4.42	6.58	3.11
March	6.6	3.7	4.27	6.64	3.10
April	5.4	1.6	4.00	6.51	3.02
May			3.90	6.45	3.01
June			3.98	6.56	3.02

ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	10.5	8.4	13.25	11.47	1.41
1987	10.4	9.6	11.32	10.56	1.94
1988	7.8	8.5	11.24	10.54	2.71
1989	7.1	9.3	12.42	11.61	2.46
1990	9.3	10.1	11.96	11.87	2.84
1991	7.3	8.5	11.83	13.20	3.45
1992	6.7	7.7	13.86	13.29	3.63
1993	4.6	7.4	10.22	11.23	2.35
1994	6.6	5.1	8.48	10.56	1.67
1995	0.6	0.6	10.38	12.22	1.72
3rd qtr.1995	0.0	0.5	10.62	11.79	1.64
4th qtr.1995	0.9	2.1	10.60	11.59	1.77
1st qtr.1996	-0.7	2.5	9.88	10.57	1.74
2nd qtr.1996			9.01	9.89	2.24
July 1995	-0.6	-0.4	10.88	12.23	1.75
August	-0.0	0.4	10.44	11.67	1.58
September	0.6	1.5	10.26	11.49	1.61
October	0.5	1.6	10.69	11.94	1.76
November	0.5	2.0	10.60	11.64	1.81
December	1.6	2.6	10.51	11.18	1.74
January 1996	0.7	2.8	10.01	10.47	1.66
February	-0.9	2.6	9.84	10.54	1.67
March	-2.1	2.1	9.80	10.71	1.90
April	-1.9	2.4	9.52	10.35	2.14
May			8.84	9.72	2.25
June			8.65	9.69	2.33

UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	4.0	15.4	11.02	10.21	4.35
1987	4.7	15.2	9.77	9.89	3.60
1988	6.8	17.3	10.41	9.62	4.48
1989	5.9	17.6	13.98	10.11	4.38
1990	5.3	16.1	14.82	11.56	5.07
1991	2.4	8.0	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.91
1993	4.8	3.5	5.99	7.40	4.01
1994	6.4	5.0	5.57	8.01	3.94
1995	6.0	7.2	6.77	8.16	4.15
3rd qtr.1995	5.8	8.3	6.87	8.09	4.08
4th qtr.1995	5.5	9.4	6.71	7.77	4.04
1st qtr.1996	5.6	10.2	6.28	7.72	4.15
2nd qtr.1996			6.06	8.06	4.08
July 1995	5.7	8.1	6.89	8.23	4.11
August	6.1	8.5	6.88	8.10	4.07
September	5.5	8.3	6.83	7.92	4.06
October	5.2	9.0	6.81	8.09	4.04
November	5.6	9.4	6.73	7.78	4.05
December	5.7	9.8	6.57	7.46	4.04
January 1996	5.3	10.6	6.45	7.41	4.19
February	6.1	10.1	6.24	7.72	4.08
March	5.4	9.9	6.14	8.06	4.19
April	5.6	10.0	6.09	8.05	4.02
May	6.3	10.0	6.12	8.09	4.08
June			5.94	8.05	4.15

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday July 2 1996

IN BRIEF

Avis agrees $800m takeover by HFS

Avis, the world's second-largest car rental company, has agreed to an $800m takeover by HFS, a US franchising group. HFS said it had reached agreement in principle to buy the employee-owned company for $500m in cash and $300m in HFS common stock. On closing the transaction, it said it would spin off the Avis Rent A Car subsidiary to HFS shareholders. Page 17

KLM seeks to end wrangle with Northwest
KLM is seeking to rebuild its troubled relationship with Northwest Airlines of the US after a wrangle over moves by its partner to limit the degree of control the Dutch carrier could exercise. A proposal that KLM and Northwest should combine their cargo operations, halted last month, is back on the agenda for talks between the two. Page 16

Rumeli ahead in Polish cement bid
Rumeli, a Turkish investment group specialising in the cement industry, is the lead bidder in a race to buy Poland's Nowiny cement works, one of the few remaining producers not sold to foreign investors. The Turkish group has said it is ready to invest $200m in the Polish cement sector. Page 16

Southern sells stake in Sweb
The Southern Company of the US said it had raised $189m from the sale of a 25 per cent stake in South Western Electricity, the English regional electricity company, to a unit of PP&L Resources, a Pennsylvania-based utility. The Southern Company paid £1.1bn ($1.7bn) for Sweb a year ago. Page 17

Eastern Comm set for Shanghai listing
Eastern Communications, the Chinese manufacturer of mobile telecoms equipment, announced plans to raise more than $70m through a listing on the Shanghai stock exchange. The B-share issue, which is reserved for foreign investors, is one of the biggest on the Shanghai market. Page 18

BHP seeks new structure for steel unit
Broken Hill Proprietary, the Australian resources group, said it was aiming to "change the structure" of its large steel division to escape the traditional cyclical nature of the unit. "We have got to look at how we can change the cost base," Mr Ron McNeilly, head of the steel division, said at the company's annual presentation. Page 18

S&N benefits from brewing investments
Scottish & Newcastle, reaping the benefit of its investment in pubs and brewing, reported a 16 per cent rise in underlying full-year pre-tax profits to £306.2m ($472m). The performance was marred only by the slow recovery of its Center Parcs holiday villages. The business was benefiting from new management and an upturn in confidence among German and Benelux consumers, it said. Page 19

Caribbean growers seek banana truce
Caribbean banana exporters, whose preferential access to the European market is under attack from the US and several Latin American producers, are seeking a truce. They have asked US President Bill Clinton to withdraw a complaint to the World Trade Organisation about the European regime and are seeking a negotiated settlement. Page 22

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Aachen Mch Reg	1175	+	55
Lahmeyer	592	+	29
Lufthansa	221	+	6
Falls			
Badenwerk	540	-	10
GEHE	989.5	-	22.5
Zanders Feinpp	95	-	9

NEW YORK ($)			
Rises			
ADT	24⅝	+	5⅜
National Re	61⅛	+	13⅝
Valley Natl	27⅝	+	2⅜
Falls			
Living Centers	26⅛	-	7⅝
Templtn Russia	23⅜	-	3
Utd Wisconsin	24⅝	-	1⅝

LONDON (Pence)			
Rises			
ADT	1550	+	395
Betacom	29	+	14½
CPS	109	+	19
Psion	410	+	60
Falls			
Jeda	157	-	48
Macallan Glenlvt	158	-	29

PARIS (FFr)			
Rises			
Cap Gemini S	207.5	+	7.5
Fonc Lyonnaise	585	+	23.5
Falls			
Interbail	247.8	-	18.2
Legris	231.6	-	8.4
Remy Cointreau	145.5	-	5.5
Worms Cie	258	-	10

TOKYO (Yen)			
Rises			
Ito Yokado	6780	+	170
Tokyu Land	593	+	12
Falls			
Asics	385	-	15
Hoya	3430	-	110
Yaohan Japan	877	-	22
Yuasa	712	-	18

HONG KONG (HK$)			
Rises			
ASM Pacific	6.4	+	0.3
Hung Hing Print	2.225	+	0.175
Lucky Man	2.8	+	0.175
Pearl Oriental	2.575	+	0.15
Texwinca	2.675	+	0.2
Falls			
Wai Kee	2.05	-	0.175

New York prices at 12:30. Bangkok and Toronto closed.

Air France may scrap plans for domestic merger

State-controlled carrier expected to unveil new proposals this week after partner misses deadline for agreement on pilots' pay package

By David Owen in Paris

Air France appears to have scrapped plans to merge Air France Europe, its domestic partner, with its own European operations. This follows the passing of a June 30 deadline for the state-controlled carrier's domestic pilots to agree a new remuneration package.

Mr Christian Blanc, Air France chairman, warned in May that the company would be unable to proceed with the merger in April 1997, as then envisaged, unless agreement was reached. It has been seeking to align the pay and conditions of Air France Europe pilots with those of their non-domestic counterparts. At present, Air France Europe pilots receive up to 15 per cent more.

Yesterday's indications that the original merger plan was off came at the start of a crucial month for the company, which last week reported an annual operating profit of FFr413m ($80m) – its first of the 1990s.

On Thursday Mr Blanc is expected to unveil new proposals for the group. Last night, speculation was mounting that these might include an out-and-out merger between Air France and Air France Europe.

Air France Europe's trade unions could be crucial to progress. Last Friday some of the unions went on strike, forcing the cancellation of all Air France Europe flights for that day.

Any failure of Mr Blanc's efforts to engineer a sustained reversal in his airline's fortunes after the heavy losses of recent years would be of broad significance. After a strike in 1993 forced the resignation of Mr Bernard Attali, Mr Blanc's predecessor, Air France has been regarded as a test of French public sector reform.

The company is also waiting to find out whether the European Commission will allow it to receive the third and final tranche of a FFr20bn state aid package. A decision is expected in mid-July.

Yesterday's apparent deathknell for the original merger proposals came in a letter from Mr Blanc to Air France Europe employees, extracts of which were reported by French news agencies.

According to the reports, Mr Blanc told employees: "The route to the European company, prepared for two years, has been shut since June 30."

"I ardently wanted a European company to be created," the letter continued, but "for this company to work an agreement was necessary".

While Air France last week reported its landmark operating profit, Air France Europe unveiled an operating loss of FFr549m for the 15 months to March 31 1996 and announced the closure of 18 routes from October which it said would improve its operating result by about FFr350m.

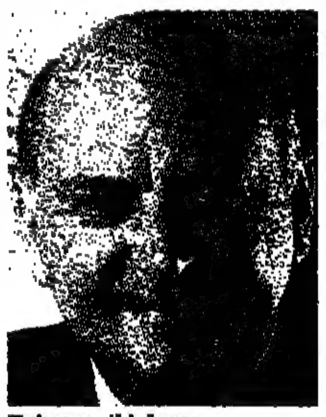
Huizenga group in $5bn ADT purchase

By Tony Jackson in New York

ADT, the burglar alarm and second hand car group built up by Mr Michael Ashcroft, is to be bought in an agreed $5bn deal by Republic Industries, the latest vehicle of the US entrepreneur Mr Wayne Huizenga.

Republic, a small waste management company until Mr Huizenga's arrival last August, has since acquired more than 20 companies in waste management, electronic security and used car sales. The ADT deal, by far its largest to date, will, in common with the others, be financed wholly by issuing shares.

The deal represents a third career for Mr Huizenga, 58. In 1968 he founded Waste Management, which as WMX Technologies is now the world's biggest waste handling company. He



Huizenga: third career

stepped down from active management in 1984 and took a stake in Blockbuster, a small Dallas video rental chain. In 1994 he sold Blockbuster to Viacom, the entertainment group, for more than $8bn.

Mr Ashcroft, 50, will join the Republic board and remain head of ADT. His 12m ADT shares are worth just over $300m at yesterday's Republic price of $27⅛.

ADT had sales last year of $1.5bn, compared with Republic's $260m. But the headlong pace of Republic's acquisitions has continued this year, with more than a dozen groups bought in the past two months.

Republic said the deal would make it the world's biggest electronic security group, with 1.6m customers in North America and Europe. ADT said the agreed £250m ($382.5m) bid it launched last month for Automated Security Holdings, the UK electronic security group, would go ahead.

ADT was acquired by Hawley, Mr Ashcroft's then-holding company, for £635m in 1987. Electronic security now forms the bulk of the Bermuda-based company. ADT sold its UK and European car auction business to its management for $340m last November, but retained its US auction business.

Mr Huizenga was reported to have told analysts the deal could add $30m-$40m to Republic's earnings, or 20-30 cents a share. Earnings last year were 18 cents a share. He said the combined business would have sales of almost $5bn next year, of which $1.7bn would come from security and $1.9bn from the company's existing used car business, AutoNation, which was acquired in March for $250m.

Mr Huizenga has surrounded himself at Republic by former subordinates from both Blockbuster and Waste Management. It was unclear last night how long Mr Ashcroft, like Mr Huizenga a self-made entrepreneur, intended to stay with his new employer.

Republic will issue 0.92857 shares for each ADT share, or 130m shares in total. It will issue a further 38m for ADT options and warrants outstanding. Republic's shares fell $1⅛ to $27⅛, valuing ADT shares at $25⅝. ADT rose $3⅜ to $22⅝.

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Auchan's bid for a rival supermarket chain highlights restrictions on French retailers

A private search for shelf space

When the senior executives of Auchan, the French retailer, held a press conference last Monday to announce a FFr17bn ($3.3bn) takeover bid for a rival company, they faced greater interest from journalists in a sensitive subject rather closer to home: the group's own financial results.

This week the company is expected to publish full details of its formal FFr1,250 a share offer to buy Docks de France, a quoted retail group best known for controlling the Mammouth supermarket chain. In the process, Auchan, a secretive, privately-owned group, will be forced to lift the veil on some of its figures.

Given that Auchan has been building up its 17 per cent stake in the rival group since April, the fact of the bid is less surprising than the way in which it is being carried out.

Mr Christophe Dubrulle, Auchan's chairman, claimed that he "did not know" whether his bid could be classified as friendly, although he admitted he had not had access to his rival's books. Mr Michel Deroy, chairman of Docks de France, put it rather more bluntly, issuing a statement last Wednesday saying he considered the offer "hostile and inadequate".

Such rhetoric is strong in the French corporate world, where discreet behind-the-scenes negotiation tends to precede takeovers. The last notable hostile bids took place at the end of the 1980s, when Paribas, the bank, made its original attempt to gain control of Navigation Mixte, the conglomerate, and Marceau Investments targeted Société Générale, the bank. Both failed.

In fact, Auchan's attempted raid probably says less about a changing approach to French capitalism or the start of a possible trend towards hostile bids than it does about the increasing desperation of the country's retail sector, and the company's particular circumstances.

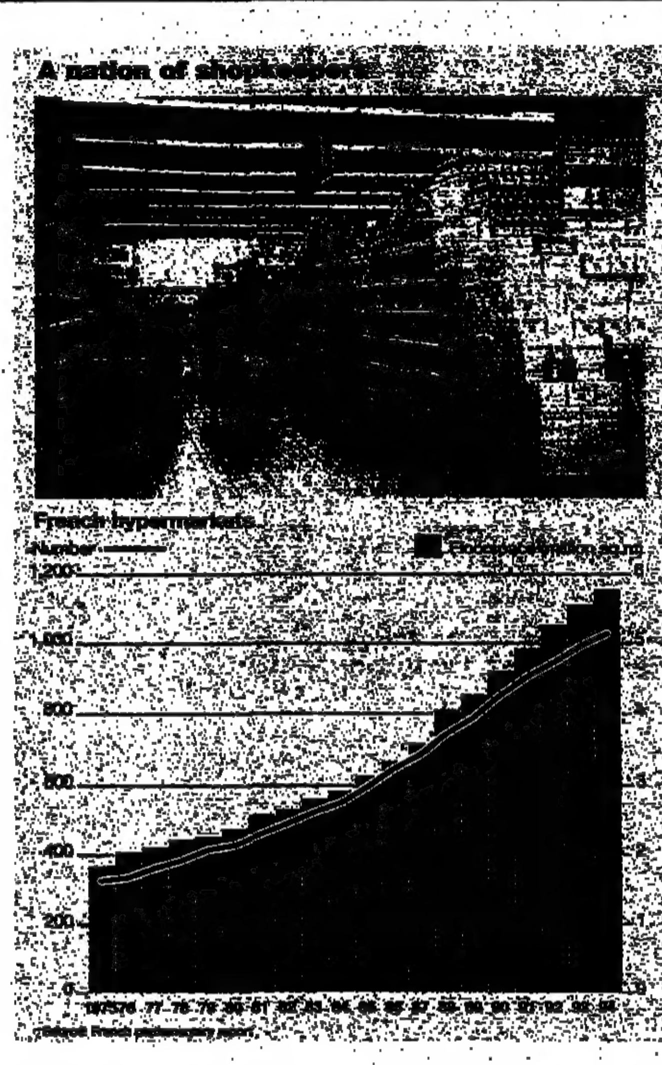
Last year Mr Alain Juppé, the prime minister, attacked France's large retailers, accusing them of exerting excessive power and destroying small shopkeepers and suppliers – a theme of President Jacques Chirac's election campaign.

> The fact of the bid is less surprising than the way it is being carried out

Since then, the government has carried out its threats to redress the balance. In spite of modifications by parliament, new legislation has been adopted. An existing temporary freeze on large-retail developments has been toughened and extended and regulators have been given powers to deal with predatory pricing.

The effect – in a market which is already mature – will be to make future domestic expansion by large French retailers difficult. Some, such as Carrefour, are responding by developing aggressively in other countries. For others, such as Auchan, the preferred solution appears to be to buy existing market share.

Docks de France, which generates more than 85 per cent of its sales from stores in France, is considered a well run company. While Auchan's strength is in large, out-of-town hypermarkets, Docks de France predominantly operates medium-sized stores, minimising the risk of overlap between the two groups.



But the takeover presents Auchan with a number of challenges. Like most of its large domestic competitors, the group has a single large shareholder. Mr Gérard Mulliez – who remains head of the group's supervisory board – and his family own 84 per cent of the shares.

Auchan has managed to maintain this system without dilution and has not turned to the stock market for additional funds. Large French retailers have traditionally been able to expand without substantial external funds. By selling the products they buy within one month, but not paying suppliers for three months, they generate the cash resources to finance growth.

Auchan has remained tightly and privately held, with its only other investors coming from its own ranks. Through a programme launched in the mid-1970s, employees own the remaining 16 per cent of the group.

"The Docks de France takeover creates a confrontation between the Mulliez system and that of the rest of the world," says one analyst. Like his colleagues, he has found Auchan unwilling to talk to him. The group's paucity of published financial information gives him few reliable figures to scrutinise.

However Mr Dubrulle suggested last week that Auchan had FFr5.5bn in cash, which it would use to help finance the purchase of Docks de France. He also pointed to the scope for borrowing, saying the group had the "full support" of its bankers.

He ruled out the possibility of a listing, and said that any additional funding could come from the Mulliez family, which he said had the capacity to make "very significant" capital increases to secure the group's future.

Considering that Docks de France is already seen by most analysts as efficiently run, some believe that Auchan has limited scope to make economies and could only reduce the substantial debt the acquisition would generate by selling parts of its rival after the takeover. That is, no doubt, one of the fears of the Docks de France management.

Given the substantial premium in the Auchan bid, the fact that the group already holds 17 per cent of the shares, and the depressed state of the French market, the prospects of an alternative bidder appear slim.

By attacking the bid on the grounds that it is not sufficiently high, Docks de France is still leaving open the prospect of becoming friendly if the price improves. In the meantime, Auchan must brace itself for what it would no doubt see as an unseemly and uncharacteristically public debate of its strategy.

Andrew Jack

Highland bids to take control of Macallan whisky

By Roderick Oram, Consumer Industries Editor

Macallan-Glenlivet, famous for its Macallan malt whisky, attracted a £180m ($275m) hostile takeover bid yesterday from Highland Distilleries, seller of Famous Grouse blended Scotch.

Highland has pooled its 26 per cent stake in Macallan with the 25 per cent stake long held by Suntory, the Japanese distiller, to give it a hold on the Speyside distiller.

For the remaining 49 per cent, Highland is offering 152.5p per ordinary share and 523.4p per convertible share. If the bid is successful, Highland will have 75 per cent of Macallan and Suntory 25 per cent.

Macallan's ordinary shares fell 29p to 158pas investors acknowledged the company's limited defence options. Its board meets today but its advisers said it might take several days to consider its response.

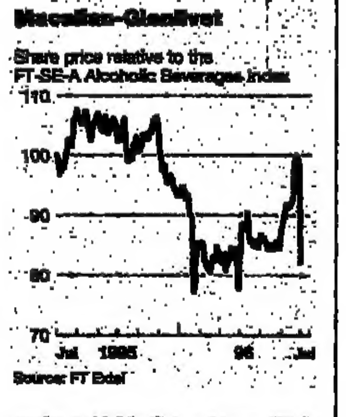
"Any opposition will be emotional rather than commercial," said one analyst. About 29 per cent of the shares are family-owned with links to the company going back more than a century.

Macallan's whisky is prized by other distillers for blending with their own Scotchs such as Famous Grouse, and it has a strong following among malt drinkers. But the company, employing only 60 people, has pursued a traditional strategy, focusing on its distilling while failing to develop adequate distribution and marketing.

"They're out in the jungle on their own," the analyst said.

Macallan would benefit from Highland and Suntory's marketing skills and distribution net-

Macallan-Glenlivet



works said Mr Brian Ivory, Highland's chief executive. The malt brand's sales were only 150,000 cases a year, a fraction of larger selling malts such as Glenfiddich and Glenmorangie.

Unspecified cost savings would also accrue from bringing together Highland's distilling business with Macallan's. Highland is proposing to move its 180-strong distilling head office from Glasgow to Craigellachie, Macallan's Speyside home.

Analysts expressed some surprise that Highland felt it had to buy in the Macallan minority rather than work with the company. "The suspicion is this has more to do with cost savings than expanding sales," one analyst said.

Highland is offering the same price for minority shares as it paid for the 26 per cent Macallan stake it bought in January from Rémy Cointreau of France. The offer is 31.3 times Macallan's 1995 earnings per share of 4.87p which were level with 1991's. Last year, Macallan pre-tax profits were £7.1m on sales of £18.8m.

KLM seeks to mend relations with Northwest

By Gordon Cramb in Amsterdam

KLM is seeking to rebuild its relationship with Northwest Airlines of the US after a wrangle over moves by its partner to limit the control to be exercised by the Dutch carrier.

The move comes after the alliance – announced last month –between British Airways and American Airlines which rivals fear could dominate transatlantic traffic.

A proposal – halted last month – that KLM and Northwest should combine their cargo operations, is back on the agenda for talks aimed at agreeing long-term commitments between the two "made on the assumption that we are both going in the same direction", KLM said yesterday.

Integration of their currently incompatible reservation systems was again being planned, as was "some fine tuning on routes". Three positions for KLM nominees on the Northwest board, vacant since February, would be filled.

The about-turn by KLM and Northwest comes as the European Commission prepares for an inquiry into the BA-American alliance which will also focus on the KLM-Northwest tie-up.

In Beijing at the weekend – after an inaugural flight to the Chinese capital – Mr Pieter Bouw, KLM president, said: "The game in the air has definitely changed. Code sharing is now the name of that game."

He also warned that KLM, which has been considering a European tie-up, would have to cut costs by 10 to 15 per cent in the next three years to remain competitive.

Late last year, KLM filed a lawsuit against Northwest maintaining that its "poison pill" anti-takeover mechanism restricted KLM's ability to take up an option, exercisable in 1998, to raise its stake in Northwest by 5 per cent. Under the poison pill, no shareholder can have a voting power bigger than 19.9 per cent.

At the last count, KLM held about 23 per cent of Northwest, though this was due to be diluted below 19 per cent by share entitlements granted to its employees in return for wage concessions.

In February, Mr Bouw and two other KLM directors resigned from the Northwest board, and by May the airline was considering ending the alliance.

But on June 14 – three days after the BA-American announcement – Mr Bouw met Mr John Dasburg, his opposite number at Northwest and told him: "Let's put emotions aside," according to accounts yesterday by Dutch reporters accompanying him to Beijing. "I explained that the issue is not about control of Northwest," he said, adding: "What we do want is continuity."

French shareholders man the barricades

Recent rebellions by small investors concern returns, not politics, writes Andrew Jack

The up-market Hotel Meridien in Paris probably did not realise what it had agreed to when it rented a room for the annual meeting of the once highly-respectable property bank Crédit Foncier de France last Friday.

Angry employees of the bank demonstrated with banners outside the entrance, and a substantial group of sinister-looking bodyguards was hired to check the identities of about 1,300 frustrated shareholders who made their way into the hall in the basement.

The day before, Eurotunnel, the Anglo-French operator of the Channel Tunnel railway link, held its own lively annual meeting just opposite, in the Palais de Congrès, switched only a few days before from another venue to meet the capacity of the 1,500-plus investors who turned up.

Under pressure: Eurotunnel management is among those facing an unaccustomed level of militancy from shareholders

Small shareholders in both groups not only scented blood last week, but tasted it, as they demonstrated an all but unprecedented show of strength in their battle to turn French annual general meetings into forums for corporate democracy.

The past few years have seen a growing number of French annual meetings disrupted by activists – such as the protests of the militant gay group Act Up at the insurer UAP last year, or employee-shareholders concerned about the closure of some subsidiaries of Elf Aquitaine last month.

Recently there have been impressive displays of force, notably the votes of no confidence passed last year in the boards of Navigation Mixte and Suez, which in both cases led to a change of top management after protests from several large shareholders.

But last week's protests were different. They were focused on demands for better returns for investors, and they arose at the meetings of two companies characterised by a dispersed shareholding base, with few large, influential investors to determine the outcome of the voting.

In the past, company boards have been able to grit their teeth through the attacks of a vocal minority at their AGMs without any serious fear that these views would be translated into any form of meaningful protest.

Yet only 62.5 per cent of the votes cast at the Eurotunnel meeting for four resolutions – including those approving the 1995 accounts and the nomination of new directors – were in favour. A similar alliance of individual investors – which joined forces with institutions and investment funds – could thus block approval of the group's restructuring plan under discussion with its creditor banks and which must be ratified by an extraordinary general meeting.

"We sent a clear message to the board that we are vigilant, and to the banks that Eurotunnel shareholders will not grant approval for an unsatisfactory plan," says Ms Sophie L'Hélias, head of Franklin Global Investor Services, a corporate governance consultant who acted as spokeswoman on behalf of many of the disgruntled shareholders.

Perhaps even more striking, only 52.65 per cent of the shareholders in Crédit Foncier de France approved the group's 1995 accounts on Friday – and that was after Templeton, the US fund which has become the largest investor, belatedly switched its opinion during the annual meeting to support for management.

In a move which may lead to legal action, the board decided to postpone the extraordinary general meeting due to be held at the same time, which calls for a big reduction in the capital of the company, effectively wiping out the value of its shares to cover losses of FFr10.8bn ($2.32bn). But a similar vote – of 52.65 per cent, that is, would prevent this plan from going through.

The two meetings showed the potential power of rebellion by small investors, but also highlighted its limitations.

First, it is unclear what the bargaining strength of these shareholders really is. If either Eurotunnel or Crédit Foncier fails to have its restructuring plans approved, there is a strong risk that both will file for insolvency – a procedure which is likely to leave investors without a centime.

Second, it is not certain that the momentum for such protest votes can be sustained.

For example, Adacte, a Eurotunnel shareholder group which controlled 7.5m votes, is already being marginalised by others as because of its proposals to replace most of the company's existing directors with its own members – who lack any relevant business qualifications.

It will be far from easy to sustain the strength of feeling and co-ordination of so many disparate shareholders.

Eurotunnel gathered a critical mass of votes, largely through a proxy solicitation campaign in the French magazine Investir.

However, it will prove more difficult for the publication to take a strong editorial line and marshall so many investors when the time comes to analyse the details of an eventual restructuring plan.

Nevertheless, the managements of French groups will need in future to pay more heed to the potential threat of small investors, the administrative challenges of processing large-scale proxy solicitations, and the risks of legal challenges to the way in which they conduct their annual meetings.

Kibbutz embraces capitalist ethos

By Yaroslav Trofimov in Tel Aviv

Kibbutz Ma'agen Mikhael, on the Mediterranean shore between Haifa and Tel Aviv, looks like a perfect example of socialist communal living. The 600 members of the kibbutz, founded in 1942 by the Jewish Boy and Girl Scouts of Palestine, receive pay according to the size of their families, regardless of function.

And yet, Ma'agen Mikhael is set to embark on the ultimate capitalist experience – floating its core business, the Plasson company, on the London Stock Exchange. The offering, tentatively scheduled for September, would mark the first time an Israeli company obtained a full London listing.

"Our entire experience has been the co-existence of the egalitarian system inside the kibbutz and the capitalistic society on the outside. We have to be able to compete outside the fence," said Mr Dov Gal, Plasson chairman.

The company which specialises in fittings for plastic pipes, automatic drinking machines for poultry and water-saving toilet flushers, recorded 1995 sales of $82m and net profits of some $7m. Société Générale Strauss Turnbull Securities is co-ordinating the float.

Mr Hornett predicted the offering, which dilutes the kibbutz's ownership of Plasson from 100 per cent to 75 per cent, would raise about $30m.

"Europe is Plasson's main market. Although based in Israel, we see it as a European company, and the place for it to be listed is London," Mr Hornett said.

Only about 15 per cent of Plasson's sales are made in Israel, with western Europe accounting for over 60 per cent and North America and Australasia much of the rest.

The company, established in 1963, owns a manufacturing subsidiary, Meccanoplastica Genova, in Italy, and marketing offshoots in France, Germany, Britain and Australia.

Unlike some other kibbutz industries, which live off cheap labour, Plasson – which generates some 80 per cent of Ma'agen Mikhael's revenues – employs highly-motivated members of the kibbutz.

"The main reason for this floating is to develop the company, enter new markets and achieve growth in the family of our products," Mr Gal said.

Plasson originally planned to float at the Tel Aviv Stock Exchange in 1994, but had to postpone it after the capital market crash that year. The London offering, originally scheduled for June, also had to be delayed – this time as a result of political uncertainty caused by the shock victory of the right wing in May 29 Israeli elections.

"For the first issue, everything had to be absolutely correct. It has to be not only sold, but it has to be at a premium and stay there," said Mr Hornett.

Mr Hornett at Société Générale Strauss Turnbull Securities, said the move by Plasson reflected a welcome trend among Israeli companies to diversify away from New York, where about 65 Israeli firms are currently listed.

NEWS DIGEST

Pall of uncertainty over LOT flotation

A pall of uncertainty hung over the privatisation of Poland's LOT airline yesterday, despite assurances from Mr Boguslaw Liberadzki, the transport minister, that the government was intent on moving the national carrier out of the state sector. The assurances were made to representatives of six international advisory groups shortlisted as potential advisers for the sale of a 49 per cent stake in the airline.

The groups had been informed that the tender had been annulled because their bids had been much higher than the sums budgeted by the government for the sale. Yesterday, Mr Liberadzki read a prepared statement to the bidders, which include Kleinwort Benson, West Merchant Bank and Merrill Lynch, informing them that the government still wanted to have the airline evaluated and to be advised on the sale of equity to "third parties" by one of the six groups.

However the government also wants to stay within its original budget for the sale, reported to be worth $1m. This includes fixed fees and a success payment, and in the view of the bidders is unrealistically low.

The size of the budget also puts a major question mark over the government's commitment to the sale, which has been pursued, with scant results, by successive governments since 1991. Indeed, yesterday officials refused to confirm the size of the budget for the privatisation amid mounting scepticism among the short-listed consortia as to the advisibility of pursuing the tender any further.

Christopher Bobinski, Warsaw

Portuguese equity fund

Portugal's first offshore open-ended equity fund is being launched this week with the aim of raising $20m–$50m in an offering designed to provide a liquid vehicle for investing in Portuguese stocks. The Portuguese Equities Fund, to be listed on the Irish stock exchange, has been set up for an initial period of seven years. Institutional investors have already committed about $15m to the fund, which is being advised by Sigma Capital, a Portuguese investment finance company.

Mr João Rendeiro, chairman of Sigma Capital and of Geste Advisers, the fund's investment manager, says it will invest in Portuguese companies and foreign companies that do most of their business in Portugal with a view to outperforming the main Lisbon market indices.

Mr Rendeiro is also manager of the Portuguese Smaller Companies Fund, a closed-end fund that has appreciated 42.5 per cent since its launch in January 1994. He sees a need for open-ended funds for the Portuguese market, where a number of closed-ended funds that were trading at a discount to their net asset value were wound up recently.

Peter Wise, Lisbon

Burns Philp disposal

Burns Philp, the Australian food ingredients supplier, is selling its specialty chemicals distribution business to Internatio-Müller, the Dutch trading and transport group. The unit, which operates in Australia and New Zealand under the Swift name, has annual sales of some A$85m. No price was disclosed. Swift supplies the food, paint, cosmetics and pharmaceutical industries and represents more than 100 international chemical producers. Burns Philp said it no longer regarded this as a core activity. The Rotterdam based Internatio-Müller said the acquisition would strengthen its position in the region and broaden its chemicals trading side.

Gordon Cramb, Amsterdam

Premier limits rights issue

Premier Group, the South African food, pharmaceuticals and retail group which reduced its corporate debt by 35 per cent last year, will seek only R450m ($104m) from a rights issue next month – almost half the sum mooted six months ago. The rights issue, the second in six years, will be used to settle head office debt of R447m. But borrowings of R335m in mainstay subsidiary Premier Foods will be retained following a 23 per cent increase in trading profit last year.

Mr Peter Sturgeon, financial director, said the food interests would be geared at 35 per cent: "This is much better than last year's average gearing of 40–42 per cent, which was tough when you're paying [interest of] 15–20 per cent for your money." Details of the rights offer will be announced within weeks, he said. Premier has revised the offering from the R800m suggested last year to R450m, after disposing of Clicks, its nationwide retail chain, and other assets. The group's combined corporate borrowings have fallen from R1.2bn in January 1995 to R784m.

Mark Ashurst, Johannesburg

Montedison spin-off

Montedison, the Italian agro-industrial group, has sold, through its Erbamont unit, its Sir Industriale chemical subsidiary to Italian chemical group Prochimica Srl for L40bn ($26m). Montedison said the sale was part of its programme of spinning off non-strategic activities. Sir operates in the epoxy resin, polyesters and polystyrene field and had a 1995 turnover of some L120bn.

Reuter, Milan

■ Henkel, the German chemicals giant has finalised a deal to purchase from the Israeli Koor Industries conglomerate 50 per cent of Soad, a maker of cleansing and cosmetics products. Henkel will invest $7.5m in the company, renamed Henkel-Soad, and will make it the sole manufacturer and distributor of Henkel brand names in Israel.

Yaroslav Trofimov, Jerusalem

Turkish group leads in battle for Polish cement stake

By Christopher Bobinski in Warsaw

Rumeli, a Turkish investment group specialising in the cement industry, is the lead bidder in a race to buy Poland's Nowiny cement works, one of the few remaining producers not yet sold to foreign investors.

The aggressive strategy being pursued by the group, which has said it is ready to invest $200m in the country's cement sector, is also pushing up the price of other producers.

The Rumeli bid, which values Nowiny at $100m, follows the sale last week of a 33.5 per cent stake owned by the Bank Handlowy in the Chelm cement works in eastern Poland to the New East European Investment Fund.

The fund is managed by Capital International of the US and Atlas Cement Investments, a Greek owned investor specialising in central Europe's cement sector.

This left investors focusing on Nowiny, Wierzbica and Nowa Huta, which account for about 15 per cent of the industry's capacity and are controlled by national investment funds established last year under the country's mass privatisation programme.

The programme gave each of the 15 funds a "lead" 33 per cent stake in about 35 companies while the funds also hold a minority 1.9 per cent share in each of the 510 firms covered by the scheme.

The arrangement means outside investors bidding for a strategic stake can offer to purchase the "lead" stake or each of the minority holdings, totalling 27 per cent.

They can also offer to purchase both.

In the case of Nowa Huta, a cement producer near Krakow with a 1m tonnes-a-year capacity, RMC, the UK building materials group, signed a letter of intent last week to purchase 33 per cent of the equity from the Progres fund, which is managed by Raiffeisen of Austria and W.S.Atkins, a UK consultancy.

RMC, which says it wants to invest $100m in Poland over five years, has also offered to buy minority stakes from the other funds to bring its holding up to 60 per cent.

However, higher offers for minority stakes from rival bidders, such as Rumeli, are inflating Nowa Huta's price.

About 65 per cent of Poland's 15m-tonne cement producing capacity is controlled by foreign companies, which include CBR of Belgium and Lafarge of France.

CBR is said to be interested in making further investments, while Holderbank of Switzerland also retains a strong interest in establishing a foothold in Poland.

Mr Schneider's check in the post

The past few months cannot have been much fun for Mr Günter Schneider, but the tenacious 65-year-old who runs Deutsche Postbank, the German postal savings bank, will at least have been able to smile last week.

Since September, he has been fighting to keep Deutsche Post, the larger but much less lucrative federal postal service, off his back after it mounted a hostile bid for Postbank together with Deutsche Bank and Swiss Re, the reinsurance group.


Victor: Mr Günter Schneider who has held off a hostile bid

Because both companies are still state-owned, Deutsche Post's advances were redolent of all sorts of political tensions, and every time the two companies had a go at each other, there was sniping within Chancellor Helmut Kohl's coalition government where the small Free Democratic party had set out to champion Postbank's cause.

By the time political guns had ceased firing last week, it seemed, however, that Mr Schneider had managed to turn the tables on Mr Klaus Zumwinkel, his counterpart at Deutsche Post.

The two companies are still mulling over the implications of an agreement reached between Mr Theo Waigel, finance minister, and the FDP, the liberals who speak out in favour of deregulation and privatisation, and have said very little so far.

One thing is clear, however. Deutsche Post will not now get a blocking minority stake of 25 per cent plus one share in Postbank, much less the 40 per cent it wanted when it hatched its original plan last September.

Instead, Deutsche Post will be offered 15 per cent by the government on January 1 1999 and a further 10 per cent – either on the same day or at a later date – when Postbank is listed on the stock exchange, an exercise which Postbank, in fact, hopes to complete in 1998.

The deal cut last week between the government and the FDP represents a further setback for Deutsche Post because it means the latter will only get its hands on a Postbank stake in 1999 at the earliest.

It had hoped to be able to do so earlier and use the stake to put pressure on Postbank as the two companies finalise the talks on their so-called co-operation agreement to regulate how Postbank can transact its financial services through Deutsche Post's post offices and how much it has to pay in return.

Having established how big a stake Deutsche Post will be allowed – and having also been told by the government that the co-operation agreement should run for at least 10 years – the two companies now have to sit down one last time and decide how much Postbank pays Deutsche Post for the use of its post offices and guarantee that Postbank is the only institution offering financial services in post offices.

Postbank meanwhile plans to sell 75 per cent minus one share – the shares not held by the government – as quickly as possible.

The bank had already suggested three partners – the BHW building society, the Volksfürsorge insurance company and the BHF bank – which would help turn Postbank into an all-round bank and not just a provider of postal savings accounts.

The three have signed letters of intent with Postbank but Mr Rainer Funke, the state secretary who represented the FDP at the talks, says that "up to 10 companies" are interested in Postbank stakes. Each of the "three or four" companies who will finally be chosen are to take stakes of "up to 15 per cent".

Who eventually does come on board at Postbank will depend largely on how much they offer Mr Waigel, whose rather desolate 1996 budget had been banking on revenues of at least DM3.1bn from the sale of Postbank stakes.

Michael Lindemann

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Avis agrees to $800m takeover bid from HFS

By Richard Tomkins in New York

One of the biggest employee buy-outs in the US looks set to be terminated following an announcement that Avis, the world's second biggest car rental company, has agreed to an $800m takeover by HFS, a US franchising group.

HFS said yesterday it had reached agreement in principle to buy the company for $500m in cash and $300m in HFS common stock. On closing the transaction, it said it would spin off the Avis Rent A Car subsidiary to HFS shareholders, keeping the Avis name and the licence fee income that went with it.

Avis is thought to be the world's second biggest employee-owned company after UAL, parent company of United Airlines, the US carrier which became 55 per cent owned by its employees in 1994.

Avis employees agreed to buy the car rental company in 1987 from Wesray Capital Corporation, a US leveraged buy-out firm, for $1.75bn. They are part-way through an employee share ownership plan under which they are paying off the debt incurred in the transaction in return for a gradually rising equity stake.

Mr Henry Silverman, chairman and chief executive of HFS, said the employees' present ownership stake was about 50 per cent, with the balance held by General Motors. On completion of the plan, their stake would rise to 71 per cent.

GM was a principal source of finance for the 1987 employee buy-out and has a long-term fleet supply agreement with the company.

HFS said the takeover was subject to reaching definitive agreements with the Avis employee stock ownership trust and GM, arranging satisfactory fleet financing, and receiving regulatory approvals.

However, Avis's shares – which are not publicly traded – are believed to have performed poorly since the buy-out, and employees may be pleased to take the opportunity to sell them if they regard the premium as adequate.

HFS is a big franchisor of hotels, with rights to the Days Inn, Howard Johnson, Ramada and Travelodge names among others. It makes its money by licensing the rights to use well-established names in return for a fee income.

Mr Silverman said he saw "tremendous opportunities" to expand Avis by attracting new franchisees, outside the US as well as within it.

General Re strengthens position with plan to buy National

By Ralph Atkins, Insurance Correspondent

General Re, the Connecticut-based reinsurance group, yesterday announced the $940m planned acquisition of US rival National Re, marking a further consolidation in the international business of protecting insurance companies against big losses.

National Re shareholders are offered $53 in cash or General Re stock under an agreed deal which would reinforce the larger reinsurers' position as the third biggest in the world, behind European rivals Munich Re and Swiss Re.

Mr Ronald Ferguson, General Re chairman, said the deal, which is subject to regulatory and shareholder approval, "complements and solidifies" the group's position as the leading US reinsurer.

The move is a further example of a trend towards larger, highly-capitalised reinsurance companies able to withstand the cost of large natural catastrophes. It also reflects a growing demand from reinsurance buyers for greater financial security.

General Re said the cash part of the deal would be financed internally. The acquisition was expected to be completed in the fourth quarter and would not dilute 1997 operating earnings.

National Re is mostly US orientated, focusing on small and medium regional and specialist insurers. Mr William Warren, National Re chairman, said the General Re link would "provide us with the opportunity to expand our scope and better utilise both companies' expertise and resources".

General Re's latest move follows its purchase in 1994 of a controlling stake in German reinsurer Cologne Re – subsequently increased to more than 70 per cent. US-based rival Employers Re has also expanded into Europe, acquiring an interest in Frankona, another German reinsurer.

Yesterday's deal coincided with the announcement by Ace, the Bermuda-based insurer, that it had acquired Tempest Re, the property catastrophe reinsurer.

Ace specialises in providing insurance against excessive losses with products which similar to some reinsurance contracts. As such, the Ace/Tempest deal is seen by observers as another example of consolidation in the sector.

General Re had a 20.5 per cent stake in Tempest for which it received $215m.

Speculation about further reinsurance deals was increased by last week's decision by Prudential the UK-based life assurer, to list its life and health reinsurance subsidiary Mercantile & General. That move was seen as paving the way for its acquisition by a larger rival.

NEWS DIGEST

Southern sells stake in SWEB

The Southern Company of the US yesterday said it had raised $189m from the sale of a 25 per cent interest in South Western Electricity, the UK regional electricity company, to a unit of PP&L Resources, a Pennsylvania-based utility.

The Southern Company paid £1.1bn ($1.7bn) for SWEB a year ago. Its sale to Power Markets Development Company, a subsidiary of Pennsylvania Power and Light, indicates that the stock of US utilities prepared to bid for an English electricity company in their own right may be more limited then UK investors think.

Mr Tom Boren, president of Southern Electric International, said the sale price enhanced Southern Electric's return on its investment in SWEB. SWEB is based in Bristol and provides electricity to 1.3m customers in south west England.

Mr Boren said the decision to sell a minority stake in SWEB reflected Southern's policy of bringing in minority shareholders. Southern Electric International will retain management and operational control of SWEB.

It is understood that SWEB's net assets, after debt and the divestiture of National Grid Group and its pump storage business, were a little less than £400m. On this basis, the sale of 25 per cent for £121.5m would appear to represent a good return for the Southern Company. A spokesman confirmed that the company had "received a modest premium" on the value of its investment. Southern Company's plans for further expansion in the UK were stymied by the UK government in May when it warned the company not to pursue its hopes of acquiring National Power, Britain's biggest generator.

Simon Holberton

Toys R Us looks to Italy

Toys "R" US, the US toy retailer, yesterday announced a deal that will allow it to start opening superstores in Italy this year, the last big European market in which it does not already operate. It has reached a franchise agreement with Toy Service, a Turin-based family company with 12 stores modelled partly on the Toys "R" Us concept.

Mr Louis Lipschitz, chief financial officer of Toys "R" Us, said it had entered the Italian market through a franchisee because it was "a little bit more difficult to do it on your own". He said Toys "R" Us superstores would be a combination of new stores and conversions of some of the larger Toy Service stores, with five openings expected this year.

Italy's strict planning and retail licence laws make it difficult for foreign retailers to enter the market. In April, McDonald's, the US fast food chain, signed a letter of intent to buy 80 Burghy restaurants from Cremonini, a private food and catering group, to increase its weight in the country. The retail market for toys in Italy is estimated at L3,000bn ($1.96bn) a year.

Andrew Hill Milan, Richard Tomkins, New York

Warner-Lambert sale

Warner-Lambert, the US pharmaceuticals and consumer products company, has completed a substantial part of its $1.05bn buy-out of Warner Wellcome by closing the acquisition of the US and European interests in the joint venture from Britain's Glaxo Wellcome. The purchase agreements for Canada, Mexico, Australia and New Zealand were not expected to be signed until this year's third quarter.

Richard Tomkins

US exchanges seek to stem fall in volumes

Traders fear for their future as liquidity disappears, reports Laurie Morse

Trading volume in currency futures and options listed on US exchanges is declining again this year, after falling more than 20 per cent in 1995, and the exchanges that sponsor the contracts are taking unusual, and in some cases desperate, steps to stem the decline.

Traders say privately that currency products have lost so much liquidity that their future is in doubt. The contracts have become victims of consolidation in the US banking industry and of fundamental changes in the foreign exchange markets.

At the Chicago Mercantile Exchange, the dominant market for these contracts, a number of high-profile firms, including Merrill Lynch and Bank of America, have closed down or cut their currency operations. The floor population has dropped to such an extent that one CME committee recently discussed relegating currency trading to a back room, so precious floor space could be used to expand the more vital Eurodollar pit.

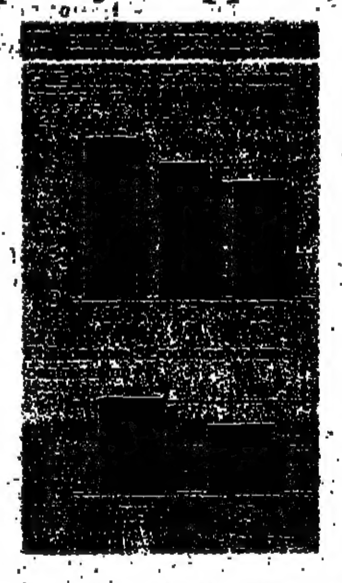
In the Philadelphia options market, the contraction is even more evident, with the trading floor eerily quiet for long periods. The problems are so great that analysts say the usual remedy for a lag in business – more market volatility – may not be sufficient to keep the exchanges' currency products from dying.

After trying, mostly unsuccessfully, to boost volume with novel new contracts and rule changes that allow large orders to be filled more cheaply and efficiently, the CME will take a new and radical tack this year.

The exchange has hired its own chief currency dealer, and is planning to open a wholly-owned foreign exchange trading subsidiary, employing traders to turn up the volume in its products. The subsidiary's proprietary trading desk will have the aim of making such narrow markets in CME currency contracts on the exchange's overnight trading system – Globex – that other dealers will be drawn in.

The plan is controversial – exchanges generally leave market-making to their members – but executives say volume losses have reached a point where bold measures are required.

Exchange-traded currency contracts have traditionally appealed to customers too small to deal in the interbank markets – retail investors and managed funds in particular. During the 1980's, banks also came to the pits to arbitrage the differences between futures and forward prices. Now, for a combination of reasons, this customer base is shrinking.



The proliferation of mutual funds and "managed futures" gives retail customers opportunities to to take a view on currency movements that did not exist a few years ago, and make it unnecessary for individuals to trade directly on the exchanges.

Ordinarily, that volume would still flow to the exchanges through fund trading, but increasingly the hedge funds that have been the exchange's best customers have grown so large that they have the capital and the credit to by-pass the exchanges and trade directly, and more cheaply, with other big institutions in the interbank market.

Meanwhile, the advent of electronic foreign exchange trading systems like Reuters Dealing 2000 and EBS has cut bank's foreign exchange trading margins to the bone, and consolidation in the banking industry has left the market with fewer currency traders.

"There are fewer banks now, and fewer proprietary trading desks," says Mr David Goon, marketing manager for foreign currency and interest rate products at the CME. "At the same time, the foreign exchange industry is changing, and proprietary trading is less profitable."

For several years, the exchanges have responded by revising their products and systems so they look more like the interbank market. More recently, they have also been diversifying into more exotic currencies, and courting customers that need the credit equality that a futures exchange clearing house offers.

Some of these initiatives have been successful, but none of them have generated enough new volume to offset losses in the exchange's main currency businesses.

At the Philadelphia Stock Exchange, for example, volume in core yen, Deutsche mark and Swiss franc options contracts is down 53 per cent this year. While turnover in new options contracts that allow traders to customise expiration dates and other features with interbank-like flexibility has more than doubled, through May the exchange still had a net 30 per cent volume loss in its currency options.

In Chicago, the only bright spot on the currency horizon is the Mexican peso. The CME's year-old peso contract is growing, traders say, because it is the only game in town – currency restrictions in Mexico limit interbank trading in pesos.

Mr Hunt Taylor, managing director of Finex Europe, believes exchange-traded currencies will survive by providing something close to the interbank environment while offering the benefits of an organised exchange – price transparency and a clearing house that equalises credit risks for even the smallest traders.

The tiny Finex, the financial futures and options division of the New York Cotton Exchange, managed to expand its currency volume this year by doing just that.

"The Finex has a different concept," Mr Taylor said. "We see ourselves more like a cash trading desk, and our trading architecture is a hybrid between the interbank market and a futures exchange."

Jenkins resigns as head of Canadian Airlines

By Robert Gibbens in Montreal

Mr Kevin Jenkins, 39, has resigned as president and chief executive of troubled Canadian Airlines International, Canada's second largest carrier, and is being succeeded by Kevin Benson, chief financial officer.

Mr Jenkins has led Canadian Airlines for five years through its worst ever financial crisis. His resignation came just a day after he signed a contract with the International Association of Machinists, its most militant union. The union leaders had set a precedent by ordering their members to accept the company offer.

"Mr Jenkins was worn out by five very tough years and he gave us time to find a replacement," said Mr Don Carty, a senior executive with Canadian when it was owned by Canadian Pacific and now chief executive of American Airlines. A cash injection by American two years ago helped Canadian survive the recession.

Although some unions and shareholders had publicly called for his resignation, Mr Jenkins had overseen a C$700m (US$512m) restructuring to hold down operating costs, helped to negotiate the 33 per cent ownership link with American, completed sale and lease-backs of aircraft and expanded Asian routes. However a new round of competition is shaping up with the formation of several charter airlines in western Canada.

The second quarter has been stronger, but Canadian lost C$111m in the first-quarter after special charges, on top of a C$195m loss in 1995.

Mr Benson joined Canadian last October as chief financial officer after a stint with Trizec, the North American property group saved from collapse by Mr Peter Munk, chairman of Barrick Gold.

Eastern Comm gets approval for Shanghai listing

By John Ridding in Hong Kong

Eastern Communications, the Chinese manufacturer and distributor of mobile telecoms equipment, yesterday announced plans to raise more than US$70m through a listing on the Shanghai stock exchange.

The B-share issue, which is reserved for foreign investors, is one of the biggest so far on the Shanghai market. It comes at a time of particular volatility on China's B-share markets, in Shanghai and Shenzhen, as market regulators have clamped down on local buying of B-shares.

The Shanghai B-share market, although less volatile than Shenzhen's, fell by almost 4 per cent yesterday after the China Securities Regulatory Commission reaffirmed the B-share ban on domestic investors. Market analysts in Hong Kong said the official moves would dampen activity but they cited improved sentiment towards Chinese issues.

"Investors are still wary, but there are signs of an easing in credit on the mainland and renewed enthusiasm for certain sectors, including telecoms," said one banker.

Mr Shi Jixing, Eastern's chairman, said approval had been received for the issue and the company planned to list next month. In support of the issue, he cited the group's strong links with the ministry of post and telecommunications (MPT), its strategic partnership with Motorola of the US, and rising demand for mobile communications in China.

In March, Eastern announced the formation of two joint ventures with Motorola, with a total investment of just under $60m. The ventures also include the China National Posts and Telecommunications Industry Corporation (PTIC), the parent holding company of Eastern and one of the operating arms of the MPT.

Eastern executives said that the group was China's largest supplier of cellular mobile telephones and cellular mobile systems equipment among the 27 groups under the supervision of the PTIC. Last year, it made post-tax profits of Yn255m ($30.6m) on sales of Yn3.32bn.

According to estimates accompanying the offer document, the Chinese mobile telecoms market is expected to see continued strong growth. From a level of about 5m subscribers in the first half of this year, the market is expected to reach about 18m by the year 2000.

The 100m share issue is to be priced in a range of Yn6.44 to Yn7.20 per share. Based on this, the fully diluted prospective price-earnings ratio is 7.19 –7.98. The company is allowed to exercise an over-allotment option of up to 15 per cent of the proposed issue.

Chilling prospect for smaller wine growers

Halting the trend of Australian vineyard takeovers is a vain hope, writes Nikki Tait

In a matter of days, Southcorp Holdings, the Adelaide-based conglomerate, is likely to take over Coldstream Australasia, the smallest of the country's listed wineries but highly-regarded.

Last month, Foster's Brewing, the Australian brewing group, snapped up Rothbury Wines, another premium winemaker based in New South Wales' Hunter Valley.

Neither are large deals: Rothbury cost Foster's about A$40m ($31.48m) and Coldstream will go for a little over A$10m. But they still sent a chill through the vineyards of some of Australia's independent winemakers. Mr Les Evans, founder of Rothbury Wines, expressed the feeling when he cautioned that, if too many medium-sized winemakers were swallowed up, the sector's "integrity" could be in jeopardy.

Halting the trend, though, may be a vain hope. Most analysts agree that, while the pace of deal-making is hard to predict, consolidation in Australia's relatively youthful wine industry is here to stay. "It does seem to be a situation which is ripe for rationalisation," says Ms Kiera Grant, analyst with James Capel in Melbourne. "Quite a lot of the hype has come off recently . . . but the fundamental reasons are still there."

For a start, there are known buyers with fairly deep pockets. The industry has four large producers with hundreds of smaller wineries, some of which are listed but most of which remain private companies. The big four – Southcorp, BRL Hardy, and Orlando Wyndham, which is controlled by France's Pernod-Ricard, and Mildara Blass/Foster's – account for more than 70 per cent of A$1.4bn of annual sales (domestic and export).

Most of these companies have been expanding by a mixture of acquisition and organic growth for some time. BRL Hardy, for example, resulted from a merger of Berri Renmano and Thomas Hardy; Mildara from Mildara Wines and Wolf Blass.

But the entry into the industry six months ago of Foster's, which has funds to spend after its sale of the Courage brewing business in the UK, changed the dynamics significantly. The brewing group bought the much larger Mildara Blass group for almost A$490m at the beginning of 1996, a price which astounded many analysts and represented a multiple of 17 times prospective earnings. Now, via Mildara, it has intervened in the bid battle between BRL Hardy and Rothbury. Its final offer of 70 cents a share was almost twice BRL Hardy's opening shot of 43 cents a share. Southcorp, too, is paying a meaty 23 times historic earnings for Coldstream.

Analysts acknowledge that both target companies were well-regarded wineries. Moreover, the Mildara price could be partly justified by the fact the Foster's was also acquiring a management team to head what may ultimately become a sizeable division.

But the recent spate of deals still drove home the message that the bigger groups need premium labels to market and are willing to pay. "It's all about having the right labels in the right markets," says Mr Alan Cobb, at stockbrokers D & D Tolhurst.

There is also the question of investment. The industry has had grand ambitions since it started to get its bottles on overseas shelves a decade ago. Last month, the Australian Winemakers' Federation issued a strategy plan which talked of pushing sales to A$4.5bn by the year 2025.

Such an objective, it suggested, could be achieved partly through a fivefold increase in the volume of exports to the US; partly from a doubling of UK sales; and partly by making some fairly dramatic inroads into the Japanese and German markets.

The domestic market, by contrast, was forecast to see only modest consumption growth, but a shift to higher-priced wines.

But development on this scale would require 40,000 hectares of new vineyards to be established by 2022 – at a cost of perhaps A$1.2bn. There would also need to be enhanced storage capacity, more processing facilities, improved transportation. In all, the federation calculated the necessary investment at about A$5bn over the next three decades – close to A$200m a year.

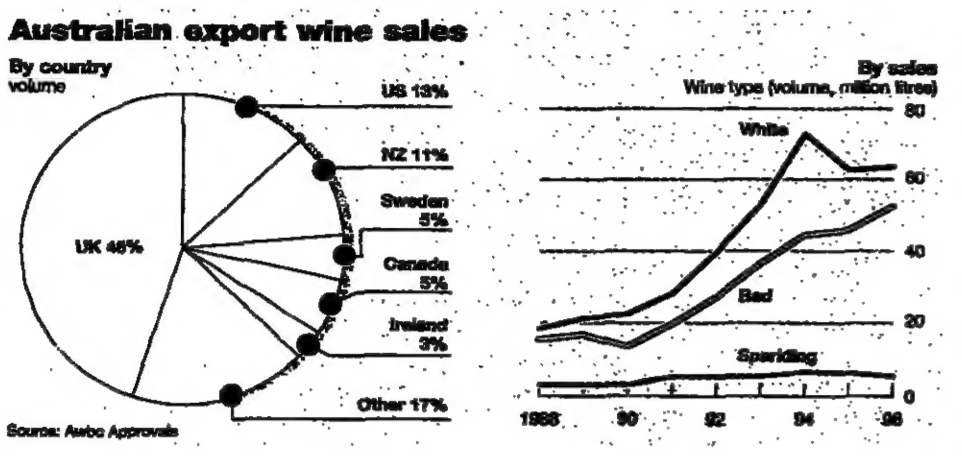
Projections so far are easily questioned. But the industry's appetite for funds – more easily supplied by big players – is a point which Mr Ted Kunkel, head of Foster's, endorses. "I think the volume or share of world wine that Australia commands [in five years' time] will depend almost entirely on putting the money into infrastructure," he said recently.

A further, related consideration is the "security" of grape supply. In recent years, Australia has suffered from a shortage on this score, constraining growth, prompting a wave of new plantings, and making winemakers anxious to ensure that dependance on third-party growers does not increase.

This situation is slowly rectifying itself – to the extent that some industry players even warn of a potential oversupply in certain grape categories by the end of the decade. But, in the shortzterm, the immediate concern is to ensure a guaranteed resource.

Southcorp, whose wine division had sales of around A$400m last year, making it the industry's largest player, argues that smaller winemakers do not have a monopoly on entrepreneurial flair, pointing out that the brands run by the big four have won their fair share of wine awards.

Australian export wine sales



Source: Awbc Approvals

BHP looks to 'change structure' of steel division

By Nikki Tait in Melbourne

Broken Hill Proprietary, the Australian resources group, said that it was aiming to "change the structure" of its large steel division, in an effort to escape the traditional cyclical nature of the unit.

"We have got to look at how we can change the cost base," Mr Ron McNeilly, head of the steel division, told analysts and investors at the company's annual presentation in Melbourne yesterday.

Last week, BHP announced a 43.9 per cent fall in after-tax profits (before abnormal items) from its steel division to A$375m, and this was one of the main factors in an overall 20 per cent fall in group profits. The company also took a A$222m abnormal charge to cover the write-off of steel-making assets in Newcastle.

BHP has already announced a 12-month review of the steel division. Mr McNeilly said: "This is a serious review, not a knee-jerk reaction. If businesses are not adding value and can't be made to add value, we'll get rid of them. We will be looking at every steel business and every facility. Nothing will be immune."

BHP also re-emphasised the plan to pare back its portfolio of petroleum assets, concentrating on selected strategic areas. It warned again that it would exit the Vietnamese Dai Hung field if new fiscal terms could not be agreed with the government.

"We're not going to put up with a loss-making venture and we've a clear course of action if suitable arrangements can't be determined, and determined shortly," said Mr John O'Connor, head of the petroleum division.

Japanese to acquire US doormaker for $470m

By William Dawkins in Tokyo

Sanwa Shutter, Japan's leading producer of sliding doors and shutters, is to pay $470m for Texas-based Overhead Door Corporation, the largest supplier of door products in the US.

Mr Toshitaka Takayama, Sanwa Shutter president, said the purchase, to be completed by July 18, fulfils the company's strategy of adding a US presence to its Asian activities. Sanwa has sales and production outlets in Singapore, Taiwan, Malaysia and Thailand but not yet the US.

The acquisition of ODC "should enable the company further to broaden its business scope, covering the major world markets of Asia and the US," said Sanwa. It expects gains from shared technology and from the pooling of product distribution across the Pacific region.

Another advantage of the purchase is that it will enable Sanwa, which has recently diversified into housing renovation, to increase its overseas procurement of construction materials. ODC also makes steel building material.

As a result of the takeover, Sanwa has upgraded its sales and profits forecasts for the current year to next March. It now expects to make a Y16.1bn (US$146m) group pre-tax profit on sales of Y272bn, up from the earlier forecast of Y14.2bn profit on turnover of Y202bn. The group, which has 4,100 employees, has recently carried out cost cuts.

ODC made a $9.6m profit on sales of $551m in the year to last December, has consolidated assets of $475.4m and just over 1,000 employees. Founded in 1921, ODC's best known product is Genie, the brand leader of electronic garage doors in the US, which it acquired two years ago.

The deal consummates a relationship, which began in 1974, when Sanwa and ODC agreed to produce lightweight shutters and garage doors.

NEWS DIGEST

State sells further tranche of SingTel

The Singapore government has sold a third tranche of shares in Singapore Telecommunications, bringing its sales of the telephone monopoly's shares to around 100m in the last few days. Temasek Holdings, the state investment firm, placed around 10m shares over the weekend with institutional investors at S$3.68 per share, the same price it obtained for placements of some 90m shares late last week. SingTel's share price fell 10 cents to S$3.66, below the placement price.

Investors grew wary both because of the diluting effect the placements would have on share holdings and because of a belief that the government may yet place more shares.

Singapore Telecommunications, the biggest company in Asia outside Japan in terms of market capitalisation, has said that it would make a second public offering later this year to Singaporeans. Analysts expect that this tranche may be offered before the national elections, expected after mid-August.

The placements over the past few days have been intended to ease a severe liquidity problem, analysts said. Most retail investors have held on to their shares since the company's 1993 listing because of the promise of successive future bonuses. Temasek held 88.17 per cent of SingTel's 15.25bn shares until the placements but is now believed to hold about 87.5 per cent. The company is still trading at above 30 times prospective 1997 earnings.

The government plans to end SingTel's monopoly of basic telephone services in Singapore in 2000, seven years ahead of schedule. SingTel is to receive compensation of S$1.5bn for the early loss of the monopoly. The company has said that before 2000 it will be looking for corporate alliances, especially in the promising Asia-Pacific region, to position itself in an increasingly competitive global telecoms marketplace.

James Kynge, Kuala Lumpur

Support for Century Zinc mine

Century Zinc, part of the RTZ-CRA mining group, said yesterday that it had received "written as well as widespread informal advice" that its proposed A$1.1bn mine project in northern Queensland had "broad support" from aboriginal communities in the region. If the development goes ahead, it will be the world's largest zinc mine. Late last week, the project looked doomed when a meeting of local aboriginals, who have a title claim over the site, broke up without deciding whether to support the project. *Nikki Tait, Sydney*

Four express interest in Optus

Mayne Nickless, the Melbourne-based transportation, security and healthcare group, said yesterday that it had received four formal "expressions of interest" from potential buyers of its 24.9 per cent stake in Optus Communications, the Australian telecommunications group, by the time the deadline for lodging applications expired on Sunday night.

It said that it was now contacting the other shareholders in Optus, which consist of a mixture of Australian institutional investors, Britain's Cable and Wireless, and BellSouth of the US. It hoped to make a statement on the situation later this week or early next. Mayne has already said that it will either sell the holding – estimated to be worth about A$1bn – to a trade buyer or, if there is no suitable candidate, in conjunction with the Optus planned stockmarket flotation later this year. The stake will only be sold to a trade buyer acceptable to the other investors in Optus.

The four expressions of interests were said to come from both within Australia and overseas, with Telecom New Zealand having already been mooted as one possible interested party. However, a foreign buyer could have problems with foreign investment guidelines which have always ensured a majority of Optus' shares were Australian-owned. Optus was formed as Australia's second telecommunications carrier – in competition with the government-owned Telstra group – in the early 1990s. Mayne is the largest single shareholder.

Nikki Tait

Hostile offer for Clyde revised

Evans Deakin, the Australian engineering group, has revised its hostile offer for Clyde Industries, lifting the cash element. The new offer is one EDI share and A$1.20 in cash for every two Clyde shares – compared with a 90 cents cash component previously. The offer values Clyde at about A$200m. However, Clyde still recommended shareholders to take no action on the bid, pending further advice. *Nikki Tait*

S&N achieves 16% underlying rise

By Roderick Oram, Consumer Industries Editor

Scottish & Newcastle, reaping the benefit of its heavy investment in pubs and brewing, reported yesterday a 16 per cent rise in underlying full-year pre-tax profits to £308.2m ($471.5m).

The performance was marred only by the slow recovery of its Center Parcs holiday villages. The business was benefitting from new management and an an upturn in confidence among German and Benelux consumers, it said.

"Center Parcs is a longer term business to develop," Mr Brian Stewart, S&N chief executive said. "We'll decide later this year wether to develop more sites depending on market conditions." Selling the business, has some analysts have suggested, "is not our intention," he added.

Center Parcs profits slipped 2 per cent to £82m on turnover up 7 per cent to £365m. Profits from Pontin's holiday camps, S&N's other leisure business, fell 12 per cent to £3.6m on sales down 7 per cent at £61m.

Operating profits from brewing rose 48 per cent to £121.4m on sales doubled to £1.8bn. Of the total, £37m of profit and £885m of sales were a 37-week contribution from Courage, the UK brewer it acquired last year. S&N has already extracted some £9m of cost savings from Courage and expected a further £45m-£48m this year. "Margins have stabilised so the cost benefits have washed down to the bottom line," Mr Stewart said.

The group took a £150.8m charge for integrating Courage with its existing brewing business, leaving pre-tax, post-exceptional profits at £156.9m ($264m) for the 52 weeks ended April 28.

The results were in line with city forecasts. For the current year, analysts are estimating pre-tax profits of around £370m free of exceptionals, a rise of some 20 per cent, as the full benefits of Courage accrue.

"There are some good pluses in brewing and pubs and Center Parcs should nudge ahead," one analyst said.

S&N's success with Courage will be closely studied by Bass which is trying to construct a deal to buy Carlsberg-Tetley, the brewing joint venture between the Danish brewer and Allied Domecq.

Bass appears, however, to be struggling to meet demands from competition regulators concerned by its large market share if it were to buy C-T. Bass would hope to derive large cost savings and improved beer portfolio from an acquisition as S&N has done.

S&N's results were also bolstered by its pub estate. "Retail had a really cracking year," said Mr Stewart. Operating profits from pubs rose 10 per cent to £157.4m on sales ahead 3 per cent to £744.2m. Profits from managed pubs were up 16 per cent to £132.7m to give the best performance of a major brewer in the current season. Profits from tenanted pubs fell 13 per cent to £24.7m reflecting its tenanted estate shrinking from 1,002 to 781 pubs.

Carclo ahead 9% but shares hit by warning

By Tim Burt

Carclo Engineering, the specialist steel and industrial wire manufacturer, yesterday accompanied a 9 per cent increase in full-year profits with a warning that its order book had weakened.

The shares tumbled 29p to 263p.

The company, which saw pre-tax profits rise from £16.7m to £18.2m ($27.8m) in the year to March 31, admitted that customer destocking and mixed demand had dampened sales so far this year.

"Demand for some products fell significantly in the second half," said Mr Ian Williamson, chief executive. "There have been cost reductions but that doesn't entirely compensate for the drop in volumes."

His cautious outlook persuaded analysts to downgrade first half profit forecasts, with some predicting Carclo would not match the £8.2m pre-tax reported at the same stage last time.

Nevertheless, Mr Williamson said demand had stabilised – albeit at a lower level – and hinted at more progress in the second half.

Operating profits last year improved to £18m (£16.7m) on sales of £158.9m ($174m) reflecting growth in the Lee steel business and card clothing division, which makes disposable combing products for textile machinery.

Lee reported profits up from £4.06m to £5.02m amid strong first half demand for cold-rolled stainless and carbon steel strip.

Although the business has suffered in recent months from volatile raw material prices and slowing demand, Mr Williamson predicted that it would start to enjoy the benefits of a heavy investment programme in 1997-98.

Card clothing saw profits rise from £2.31m to £3.15m, including a maiden contribution of £232,000 from Ashworth Brothers, the US manufacturer acquired for £4.8m last December.

Their contributions, however, were offset by weaker performances in the general engineering businesses, where a fall in profits to £4.57m ($5.15m) was caused partly by start costs at Gill's Cables, the automotive control cables business, which had to invest in equipment for new vehicle models.

Profits in the wire division were flat at £4.89m (£5m), although Mr Williamson said that was creditable given difficult trading conditions.

Earnings per share rose from 18.8p to 20.7p, or from 18.6p to 20.6p before rationalisation costs and £1.15m of losses on the disposal last year of three non-core businesses.

A final dividend of 7.31p is proposed, making 10.75p (10p) for the year.

Trevor Humphries

Ian Williamson (left) with David Adam, finance director: demand for some products fell significantly in the second half

BTR disposal raises £80m

By Tim Burt

BTR, the industrial conglomerate, yesterday announced the sale of its diesel engine subsidiary and hinted at the imminent disposal of other non-core businesses in its bid to focus on industrial engineering.

The company, which has faced growing calls from City analysts to put meat on its divestment strategy, said it was selling its Lister-Petter engine manufacturer to Schroder Ventures for £80m ($122.4m). Other disposals could be announced later this week in a package likely to raise about £300m.

BTR has raised £481m this year from disposals; that total could exceed £700m by the time it announces its interim figures in September.

The disposal candidates are thought to include the group's underperforming Taiwan polymers business and the US arm of its Tilcon aggregates operation. The North American arm of Tilcon, however, is not expected to fetch as much as its UK stablemate – sold to Minorco last year for £330m.

Non-engineering activities such as BTR's Dunlopillo beds and its Australasian furnishing and carpets business may also be sold. Some analysts suggested that the Brush locomotive and Hawker Siddeley electric power arm were also on the market. While the company refused to comment on future disposals, Mr Ian Strachan, chief executive, said yesterday's sale enabled it "to pursue our strategy for profitable growth by investment in our core industrial manufacturing operations".

Schroder Ventures, which has been in talks with BTR for almost a year, said it would consider a flotation of Lister-Petter, the world's seventh largest independent diesel engine manufacturer.

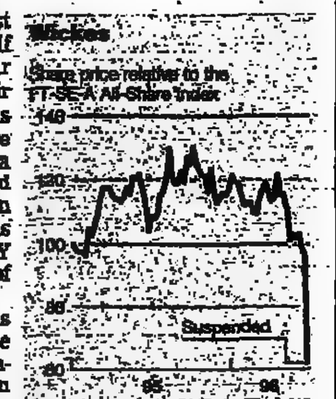
"We think it's a world renowned name that has been left to stagnate," said Mr Phil Tempest, a director of Schroder Ventures who will become chairman of Lister-Petter, which employs 1,000.

BTR shares fell 5p to 248½p as more than 5m shares changed hands.

LEX COMMENT

DIY Retailing

The disaster at Wickes must have other Do-It-Yourself retailers rubbing their hands. At one stroke, their most aggressive rival has been muzzled and they have the chance of taking out a competitor at what could potentially be a knock-down price. Moreover, this has happened just as the DIY market is showing signs of life again.



The most logical predator is Kingfisher, which has made no secret of wanting to consolidate B&Q's leadership in DIY. Buying Wickes' 4.5 per cent market share would give B&Q just under 20 per cent – twice as much as its nearest rival. Boots may also be interested, since it would bring critical mass to Do-It-All, where it is soon to take full control.

But its management's terrible experience with DIY mergers should make it rather more cautious. The same may apply to J. Sainsbury, which is only just completing the integration of Texas and Homebase. However, Wickes may be of interest to one of the big builders merchants or to overseas retailers like Home Depot of the US or Castorama of France, which are keen to get a strategic foothold in the UK market.

The snag is valuing Wickes. Clearly its profits have been overstated, but with no apparent cash crisis, a financial collapse looks unlikely. A very conservative enterprise valuation of half this year's expected sales gives a figure of £300m – almost exactly what Wickes is worth at its current suspended share price. While the emergence of a predator is unlikely until the financials become clearer, a bidder which can extract synergies might be prepared to pay more.

Glaxo Wellcome strengthens Aids position

By Clive Cookson, Science Editor

Glaxo Wellcome, the UK pharmaceutical group, has strengthened its position in the Aids market with a series of deals focusing on an experimental anti-HIV drug which it is developing with Vertex, a US biotechnology company.

Vertex and Glaxo will pay G.D. Searle, the pharmaceutical subsidiary of Monsanto of the US, $25m (£16.3m) for non-exclusive worldwide rights to a Searle patent that could have interfered with their rights to make and sell the drug, 141W94.

Searle will also receive a royalty on sales of 141W94.

Glaxo will contribute $10m of the $25m payment to Searle. It will also make a $5m equity investment in Vertex, giving it a 0.86 per cent stake.

The announcement comes a week before the international Aids conference in Vancouver, at which three-way drug combinations are likely to be hailed as the best treatment for Aids.

If 141W94 emerges successfully from clinical trials, it will enable Glaxo to offer triple-drug therapy on its own. It already has two drugs – Retrovir (AZT) and Epivir (3TC) – licensed for use as a two-way combination against HIV.

141W94 is Glaxo's most advanced candidate in the class of Aids drugs known as protease inhibitors, which are expected to become an essential component of combination therapy. However, protease inhibitors from three competing companies, Roche, Merck and Abbott, have already reached the market.

● Glaxo Wellcome also said yesterday that it had completed the sale of its US and European interests in the Warner Wellcome joint venture to Warner-Lambert for $900m.

Glaxo announced on 19 December 1995 that it was selling its share of Warner Wellcome, a non-prescription drugs business, for $1.05bn. It will receive the remaining $150m from Warner-Lambert "in the next few months", after the sale has been completed in Canada, Mexico, Australia and New Zealand.

Coca-Cola dampens Cadbury's efforts

By Roderick Oram, Consumer Industries Editor

Intense competition from Coca-Cola is blunting Cadbury Schweppes' efforts in the US to revitalise the 7-Up brand, a key component of its strategy for Dr Pepper/Seven-Up Companies, which the UK group acquired last year for $1.7bn (£1.1bn).

"As soon as Coke realised what we were up to, it started heavily discounting Sprite" [the main competitor to 7-Up in the lemon-lime category] said Mr John Brock, head of Cadbury Schweppes' beverage stream.

"There are signs of the beginning of a turnround for 7-Up but Coke's doing a terrific job on Sprite. It's the fastest growing brand," said Mr John Sicher, editor and publisher of Beverage Digest, the authoritative US soft-drink newsletter.

Last year, Sprite's total US volumes rose 16 per cent while 7-Up's fell 2 per cent, according to Beverage Digest's figures. 7-Up began to recover in the first quarter, pushing up volumes of take-home sales by 1.2 per cent. But Sprite raced away with a 27.6 per cent gain.

So far this year, 7-Up volumes are "ahead about 2 per cent year-on-year and we wished it was up a bit more than that," Mr Brock said. "But it is still the first volume gain in five years for the brand."

New packaging and $25m of new advertising for 7-Up had been received enthusiastically by franchisees in the Pepsi bottling system, which handle about 40 per cent of 7-Up US volumes, and by independent bottlers who handle the rest.

"We still hope to increase volume 4-5 per cent this year but that means doing 6 or 7 per cent in the second half," Mr Brock said. Coca-Cola has also declared war on Cadbury Schweppes' A&W root beer brand, the sector leader with a 27.5 per cent share year to June, against Coca-Cola's Barq's brand which was second with 14.2 per cent.

Mr Jack Stahl, president of Coca-Cola North America, recently said he planned to make Barq's the number one brand in current sales terms by the end of the year.

Coca-Cola took a big step towards that earlier this year when Coca-Cola Enterprises, its minority-owned bottler, dropped A&W and two other Cadbury brands, Sunkist orange and Welch's fruit juices.

On the positive side, Dr Pepper, the leading US non-cola carbonated soft drink, was continuing to grow at about one-and-a-half times the rate of the market, Mr Brock said.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen Steak §	Yr to Dec 31	18.2	(15.4)	2.22♠	(0.541♠)	11.8	(2.2)	-	-	-	-	-
Associated Nursing	Yr to Mar 31	34.1	(20.6)	2.51♠	(2.63)	11.5†	(13)	2.45	Aug 15	2.25	3.3	3
Beale	6 mths to Apr 27	27.4	(24.7)	2.36	(1.85♠)	15.4	(13.9)	2.55	Oct 7	2.2	-	6.7
Carclo Eng	Yr to Mar 31	158.9	(174)	18.2	(16.7)	20.7	(18.8)	7.31	Sept 13	6.8	10.75	10
Coda	6 mths to Apr 30	15.3	(15.2)	[illegible]	(0.993)	13.9L	(2.7)	nil	-	nil	-	nil
[illegible]	Yr to Mar 29	28	(30.4)	1.81	(0.837♠)	17.4	(8.2)	4	Oct 1	2	5.75	[illegible]
Jasmin ϕ	Yr to Mar 31	7.1	(5.2)	0.356♠	(0.218)	8.42	(4.93)	-	-	-	-	-
MFI Furniture	Yr to Apr 27	768.2	(720.7)	55.1	(66.1)	8.11♥	(7.61)	2.9	Oct 4	2.75	4.4	[illegible]
Microgen	6 mths to Apr 30	[illegible]	(34.9)	4.88	(4.47)	8	(7.3)	2.4	Aug 16	2.3	-	7.5
Phoenix Timber	Yr to Mar 31	24.9	(17.5)	0.61♥	(0.742♥)	1.61†	(2.17)	0.2	Aug 15	nil	0.2	nil
Premier Land	6 mths to Mar 31 ★	5.6	(3.08)	1.06L♠	(0.023)	0.27L†	(0.01)	-	-	-	-	-
Scot & Newcastle	Yr to Apr 28	2,989	(2,022)	156.9♠	(264)	18.5	(28.4)	12.05	Sept 2	12.05	19.42	[illegible]
[illegible] §	Yr to Dec 31	2.55	(4.66)	4.66L♠	(3.24L)	1L	(0.8L)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. §USM stock. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ϕAim stock. ★Comparatives restated.

Blick's $2.7m link-up

By Christopher Price

Blick, the timing, access and security group, is setting up a joint venture with Amano Corporation of Japan to exploit technology serving time and access control systems, such as entry swipe cards.

The group is investing $2.7m (£1.7m) for a 45 per cent stake in Amano Blick International, which will eventually be floated on Nasdaq.

Sales are forecast to be at least $50m within the next five years. Mr Ian Scott-Gall, managing director of Blick, said the group had developed a system with a clear lead over its competitors.

ABI will provide integrated services to the time and access control operation. This involves the supply of both hardware and software support.

Tyco pays £138m for Thorn Security

By Motoko Rich

Tyco International, the US conglomerate, has paid £137.5m ($210.4m) for Thorn Security Group, which was sold to its management by Thorn EMI in 1994.

Last year the group, which makes fire detection equipment, security alarms and environment control systems, was planning a stock market flotation.

However, Hambro European Ventures, which backed the £65m MBO, said it was able to obtain a better price through a trade sale. Shareholders, which include Thorn EMI and the management, realised £9m in dividends prior to the sale.

HEV, which owns 26 per cent of the voting shares and 50 per cent of the preference capital, will sell its entire stake, as will Thorn EMI, which has 42.5 per cent of the shares. The management team, which made an original investment of £500,000 in the remaining shares, will also sell its holding.

Although the management will stay in place at the point of sale, their position will be reviewed by Tyco.

In the year Thorn EMI sold it to the management, the business lost £3.5m. However, in the 12 months to March 31 it made profits before interest and tax of £10m on sales of £200m.

INTERNATIONAL CAPITAL MARKETS

Treasuries off lows ahead of FOMC meeting

By Lisa Bransten in New York and Samer Iskandar in London

US Treasury prices were off their session lows by early yesterday afternoon as traders looked to the two-day meeting of the Federal Reserve's Open Market Committee, which is set to begin today.

At mid-morning, the benchmark 30-year Treasury was down as much as a quarter point after the National Association of Purchasing Management said its index of June manufacturing activity rose to 54.3 from 49.3 in May.

By midday however the long bond had rebounded to post a loss of 3/16 at 88 5/32 to yield 6.906 per cent and the two-year note was 1/16 lower at 100 3/32, yielding 6.132 per cent.

Some analysts said the details of the NAPM report, such as the decrease in the prices index, were positive to the bond market despite the stronger manufacturing activity. Most economists do not believe the Fed will raise interest rates at this week's meeting.

Economists from Deutsche Morgan Grenfell in New York called the data "the best of all worlds. Purchasing managers report activity is expanding at a solid pace while price pressures are nil".

But some worried that an increase in the supplier deliveries component presaged a possible emergence of inflationary pressures.

Increases in the order backlog and supplier deliveries components "show potential capacity pressures," said Mr Richard Gilhooly, international bond strategist at Paribas Capital Markets in New York.

He said quarterly portfolio adjustments may have had something to do with the relative stability on the market.

GOVERNMENT BONDS

■ UK gilts ended modestly lower. Liffe's September long gilt future closed at 106 25/32, down 3/32. In the cash market, the 10-year benchmark gilt was also 3/32 lower at 97 1/32.

Market participants ignored stronger than expected data showing M0 monetary growth had reached 1.3 per cent in June month-on-month, and 7.3 per cent year-on-year. Economists at Hoare Govett believe these figures herald stronger retail sales in the near future.

A rise in the Purchasing managers' index to 50.9, from 47.6 in May, also reinforced the feeling that the economy might be more robust than previously thought. Traders believe this reduces the chances of a rate cut after tomorrow's policy meeting between the chancellor of the exchequer and the governor of the Bank of England.

■ German and French bonds traded in line with US Treasuries. Liffe's September bund future settled at 95.70, unchanged, while Matif's notional contract lost 0.12 to close at 121.88. In the cash market, 10-year OATs yielded 2 basis points less than equivalent bunds, unchanged from Friday.

Ms Sharda Persaud, a European economist at San Paolo Bank, believes there is still room for the French and German central banks to cut interest rates this summer, if German M3 money supply growth is "reasonable", but she warns that "the end of the interest rate easing cycle is near".

■ Italian bonds recouped early losses to close little changed. Liffe's September BTP future settled at 116.82, up 0.04. The 10-year benchmark BTP closed 0.07 higher at 101.82, its yield spread over bunds unchanged at 292 basis points.

■ Greek markets reacted positively to the nomination of Mr Costas Simitis as prime minister. Athibor – the Athens interbank offered rate – eased sharply as traders considered that political uncertainty had faded. The one-month rate closed at 14.21 per cent, down 1.21 from Friday, while the 12-month rate fell 59 basis points to 14.71 per cent. Declining inflation is also seen as a supportive factor.

● The UK and Sweden were the largest beneficiaries of bond market asset allocation shifts in the last three months, according to a Paribas survey. UK and Swedish bonds gained 14 and 12 points respectively, on a scale of 0 to 100, reaching weightings of 54 and 53.

Parmalat taps lira sector with L500bn five-year FRN

By Antonia Sharpe

Parmalat, Italy's fast-expanding dairy products group, yesterday became the first Italian company for well over a decade to tap the lira sector of eurobond market.

The strong demand for the transaction raised hopes that other Italian companies would turn to the eurobond market as an alternative to the syndicated loans market.

Credito Italiano, which jointly led the L500bn issue of five-year floating-rate notes (FRNs) with Chase, said that although the likes of Fiat and Pirelli used the market in the early 1980s, in recent years it had been monopolised by supranational borrowers such as the European Investment Bank and the World Bank, and by banks with strong credit ratings.

Parmalat, which recently announced a rights issue to raise at least L500bn to cut debt and fund further international expansion, decided to proceed with the offering to diversify its investor base. The company, which has traditionally relied on the syndicated loans market for funding, will use the proceeds of the transaction to replace short-term bank loans.

INTERNATIONAL BONDS

Parmalat's high profile among domestic and foreign investors, together with the current lack of lira-denominated FRNs which offer a healthy margin over the London interbank offered rate (Libor), resulted in the offering being twice over-subscribed, and prompted the company to increase the size of the deal from an initial target of L400bn.

The strong demand for the notes pushed them up from an issue price of par to trade at par-10 in the late afternoon.

The margin on Parmalat's notes of 50 basis points over Libor compared with an average margin of 15 basis points on FRNs issued by banks, but Credito said Parmalat's margin was in line with the terms it achieved in the syndicated loans market.

The euro-sterling sector was enlivened by the sale by the UK government of £235m worth of bonds which Railtrack had placed with it shortly before its privatisation.

The two offerings of 10-year and 20-year paper appeared to be generously priced at a yield spread of 87 and 60 basis points over UK government bonds respectively, in view of Railtrack's strong single A credit ratings.

Lead manager SBC Warburg said the pricing reflected the government's desire to ensure a warm reception for what was essentially Railtrack's debut in the eurobond market. When the bonds were freed to trade, both spreads tightened in by about one basis point.

SBC said traditional UK institutional investors, namely the insurance companies, opted for the 20-year paper while the 10-year paper had a broader appeal among domestic and international fund managers.

Apart from Parmalat and Railtrack, issuance yesterday was relatively muted ahead of the FOMC meeting and the US holiday on Thursday. However, business is expected to pick up next week as borrowers do some last-minute funding before the summer break.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Electrovoma Aliso	75	(c)	99.29	Jul 2004	1.0	+400(6¾%-06)	ING Barings
Transener(e)	85	(e)	(e)	Jul 1999	0.85	(e1)	CSFB/Bk Bost/ING Bg
Republic of China‡	300	7.75	99.42R	Jul 2006	0.43R	110(6¾%-06)	CSFB/Mrgn Stnly
■ D-MARKS							
DSL Finance(a)	250	5.37	99.65R	Jun 2001	0.25R	+25(bbl118)	Goldman Sachs
■ AUSTRALIAN DOLLARS							
IADB+#	250	7.80	99.95	Jul 1999	0.80	-	Yamaichi Intl(Europe)
■ ECU							
Credit Local(b)	[illegible]	(b)	101.885	Aug 2002	1.875	-	Kredietbank
Credit Local(f)	45	5.25	99.23R	Dec 1999	[illegible]	(f1)	Morgan Stanley
■ SWISS FRANCS							
Dainippon Screen(c)§	100	0.25	(c)	Sep 2000	(c)	-	SBC Warburg
Landesgirokasse	100	4.75	103.5	Jul 1998	2.75	-	Credit Suisse
■ STERLING							
Railtrack Plc(s) tranche 1	134m	8.125	102.64	Mar 2006	-	+87(8¾%-17)	SBC Warburg
Railtrack Plc(s) tranche 2	100m	8.625	102.289	Mar 2016	-	+60(7¼%-06)	SBC Warburg
■ PESETAS							
KFW Intl. Finance	10bn	7.37	100.00	Aug 2000	1.50	-	JP Morgan/UBS
■ SWEDISH KRONER							
Eksportfinans(Norway)	500	7.50	101.41	Aug 2001	1.875	-	Svenska Handelsbanken
■ LUXEMBOURG FRANCS							
Deutsche Finance Nrlnds	2bn	6.50	101.95	Aug 2005	2.00	-	BGL/Generale Bank
■ ITALIAN LIRE							
Parmalat Finance‡	500bn	(d)	100.0R	Jul 2001	0.30R	-	Chase Invst/Crdt Itlno

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. +Unlisted. §Convertible. ♦With equity warrants. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with Dm500m launched 29/5. Plus 31 days accrued interest. b) 5% for first 3-yrs, 8% thereafter. c) To be priced 5/7. d) 3-mth Libor +50bp. e) To be priced today. e1) +325-337(5¾%-06) f) Originally issued 2/94 at ECU450m. f1) +0.232(5%-99) g) 11% 1st 3yrs, 11½% next 2yrs, 11¾% thereafter. s) Short first coupon.

Good response to offerings from Peru and India

By Richard Lapper in London and Sally Bowen in Lima

International investors have responded positively to a $1bn plus equity offering from Peru and a $50m global depositary receipt issue from India, signalling the growing popularity of emerging markets.

Pricing of the Telefonica del Peru issue, one of Latin America's largest primary offerings this year, was expected in New York late yesterday, while the Indian offer, the country's first since the formation of the new United Front government, was priced in London.

EMERGING MARKET ISSUES

Demand for international investors for Telefonica shares was described as "extraordinary" by Mr Javier Tovar, head of Peru's special committee for citizen participation, which is co-ordinating the sale of shares to retail investors.

International demand for shares had exceeded supply by "between four and five times" and guaranteed "a solid after-market", he added.

The sale of a tranche of Telefonica to retail buyers in Peru has exceeded the most optimistic expectations. More than 263,000 Peruvians – most of them first-time investors – have bought packages of shares for between $200 and $8,000, raising some $324m.

In total the Peruvian government is expected to raise some $1.2bn through the sale of a 28.6 per cent stake in the company.

Bankers at Jardine Fleming, meanwhile, said the the Indian GDR issue – for Crompton Greaves, the largest Indian private electrical engineering company, was nine times over-subscribed. Mr Roddy Sale of Jardine Fleming said the issue had met with an "exceptional reception from existing investors in Indian equities as well as many new entrants to the market."

The issue was priced at $7.58 per GDR, each equivalent to one share, representing a 6.11 per cent premium on the three-day average closing share price on the Bombay Stock Exchange. The issue, which included a greenshoe option of $3m, is to be listed on the London Stock Exchange.

Figures released recently by Citibank show that companies from the emerging markets have been prominent issuers of American Depositary Receipts in the first six months of this year. The number of emerging market companies setting up new ADR programmes increased to 54, compared with 28 in the first six months of 1995.

A total 61 companies raised a total of $6.2bn in depositary receipt (DR) programmes in 1996, a rise of 72 per cent on the same period of 1995.

● Egypt's first international GDR offering got under way yesterday with the publication of the preliminary offering circular for an offering of GDRs by the Commercial International Bank of Egypt.

CIB is also set to become the first Egyptian company to be listed on the London Stock Exchange, writes Antonia Sharpe.

The GDR offering, which is equivalent 1m CIB shares or about 20 per cent of the bank's share capital, is expected to raise about $100m for the vendor, said the National Bank of Egypt, which currently has a 43.6 per cent shareholding in CIB.

The book-building period started yesterday and closes on July 17, with pricing expected on the following day.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.1250	-	8.90	8.96	8.77
Austria		6.250	05/06	97.3100	-0.020	6.32	6.58	6.46
Belgium		7.000	05/06	101.6800	+0.040	6.76	6.88	6.86
Canada *		7.000	12/06	0.0000	-	7.71	7.85	7.66
Denmark		8.000	03/06	104.0000	-0.040	7.40	7.61	7.40
France	STAN	5.750	03/01	100.7600	+0.002	5.58	5.72	5.56
	OAT	7.250	04/06	106.3200	-0.040	6.49	6.60	6.47
Germany Bund		6.250	04/06	98.1500	-	6.51	6.60	6.45
Ireland		8.000	08/06	102.5000	+0.080	7.63	7.75	7.59
Italy		9.500	02/06	101.8200	+0.070	9.21†	9.28	9.40
Japan	No 140	6.600	06/01	119.4303	-	2.24	2.33	2.41
	No 182	3.000	09/05	98.5782	-0.170	3.20	3.28	3.25
Netherlands		6.000	01/06	96.9200	-0.120	6.44	[illegible]	6.38
Portugal		11.875	02/05	110.2400	-0.600	8.76	8.87	[illegible]
Spain		8.800	04/06	99.8300	+0.150	8.80	8.96	[illegible]
Sweden		6.000	02/05	86.8056	-0.210	8.19	8.31	8.49
UK Gilts		8.000	12/00	102-30	-3/32	7.21	7.27	7.42
		7.500	12/06	97-02	-3/32	7.92	8.01	8.05
		9.000	10/08	107-18	-3/32	8.03	8.13	8.17
US Treasury *		6.875	05/06	101-01	-1/32	6.73	6.95	6.89
		6.000	02/26	86-19	+2/32	6.91	7.10	6.87
ECU (French Govt)		7.500	04/05	103.8800	-0.280	6.90	7.02	6.91

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	6.16
Broker loan rate	7	Two month	-	Three year	6.34
Fed funds	5¼	Three month	5.19	Five year	6.52
Fed funds at intervention	-	Six month	5.42	10-year	6.76
		One year	5.74	30-year	6.94

BOND FUTURES AND OPTIONS

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
9550	0.56	0.85	[illegible]	0.91	0.26	0.68	1.28	1.61
9600	0.30	0.57	0.39	0.71	0.60	0.87	1.59	1.91
9650	0.14	0.37	0.26	0.54	[illegible]	1.17	[illegible]	2.24

Est. vol. total, Calls 7124 Puts 6460. Previous day's open int., Calls 136805 Puts 154842

FT-ACTUARIES FIXED INTEREST INDICES

Price indices UK Gilts	Mon Jul 1	Day's change %	Fri Jun 28	Accrued interest	xd adj. ytd		Low coupon yield Jul 1	Jun 28	Yr. ago	Medium coupon yield Jul 1	Jun 28	Yr. ago	High coupon yield Jul 1	Jun 28	Yr. ago
1 Up to 5 years (22)	122.54	0.01	122.52	2.98	4.26	5 yrs	7.33	7.31	8.23	7.37	7.36	8.23	7.46	7.43	8.29
2 5-15 years (19)	146.53	-0.06	146.62	2.42	5.64	15 yrs	8.14	8.13	8.50	8.15	8.13	8.61	8.24	8.23	8.65
3 Over 15 years (9)	161.35	-0.11	161.54	3.34	5.43	20 yrs	8.23	8.24	8.50	[illegible]	8.22	8.51	8.30	8.30	8.62
4 Irredeemables (6)	182.19	0.14	181.95	2.28	6.96	Irred.†	8.32	8.33	8.63						
5 All stocks (56)	142.15	-0.04	142.21	2.86	5.18										

Index-linked	Mon Jul 1	Day's change %	Fri Jun 28	Accrued interest	xd adj. ytd		Inflation 5% Jul 1	Jun 28	Yr. ago	Inflation 10% Jul 1	Jun 28	Yr. ago
6 Up to 5 years (1)	190.04	0.02	197.99	1.81	4.48	Up to 5 yrs	[illegible]	2.89	[illegible]	1.17	1.16	1.81
7 Over 5 years (11)	186.96	0.02	186.94	1.77	1.81	Over 5 yrs	3.62	3.62	3.76	3.62	3.61	3.66
8 All stocks (12)	187.10	0.02	187.06	1.76	1.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jul 1	Jun 28	Jun 27	Jun 26	Jun 25	Yr ago	High*	Low*
Govt. Secs. (UK)	92.81	92.66	92.66	92.82	92.82	91.39	96.34	91.59
Fixed Interest	112.12	112.10	112.00	111.96	111.90	110.58	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jun 28	Jun 27	Jun 26	Jun 25	Jun 24
Gilt Edged bargains	79.1	78.3	90.9	87.8	88.5
5-day average	80.5	78.6	78.1	75.3	78.1

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on July 1

UK GILTS PRICES

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CURRENCIES AND MONEY

MARKETS REPORT

Forex markets buckle under weight of expectation

By Philip Gawith

Foreign exchange markets yesterday sunk into a post-G7 torpor, seemingly overwhelmed by the weight of events which lie ahead during the rest of the week.

Analysts spent most of the day sifting through the runes of the weekend G7 summit in Lyons, but the lack of price action testified to the collective conclusion that their musings on currencies did not appear to add up to more than "more of the same".

The dollar closed little changed in London at DM1.5235, from DM1.5222, and at Y109.515, from Y109.685.

The biggest winner on the day was sterling, which rallied against both the D-Mark and the dollar, finishing at DM2.3701 and $1.5558 from DM2.3651 and $1.5541. The trade weighted index finished up at 86.5, from 86.3. Traders said the UK currency had benefited from the June UK purchasing manager's index and M0 money supply growth numbers, both of which dampened speculation about a possible cut in rates. Labour party dissension was cited implausibly as being pound positive by people who had hitherto said the market was now more scared of the incumbent government than a Labour successor.

There was little movement in Europe, save for an appreciation of the Swiss franc on fears about the health of President Yeltsin ahead of the Russian second round elections on Wednesday. The franc closed at 82 centimes against the D-Mark, from 82.2 on Friday.

■ If the G-7 was seeking to leave its true intentions towards the currency markets vague, it appears to have succeeded. Markets are unsure how to analyse the move from talking about an "orderly reversal" of dollar weakness, to describing the recent correction in the main rates as "positive and promising".

Mr Stephen Lewis, analyst at the London Bond Broking Company, said: "It all comes down to the question what exactly the rate developments "promise". To those who are looking for yet further strength in the US dollar, the answer may seem to be more movement by exchange rates in the direction they have taken in the past year.

To those who believe that the current set of exchange rates represents the most perfect approximation to the economic fundamentals achieved in the history of mankind, as Mr Camdessus asserted last week, the promise is of non-inflationary growth in economies."

There were some press reports that the meeting was divided, with some countries, including Japan, apparently wanting the statement to call explicitly for a stronger dollar, while the US and others rejected this stance.

The motivation for the Japanese stance, if it is correctly reported, lies in economic weakness. Mr Carl Weinberg, chief economist at High Frequency Economics in New York, says: "The problem is that Mr Hashimoto is out of policy options with which to respond to his still growing economic crisis. Yen devaluation is the only macroeconomic policy left, with interest rates down near zero and fiscal policy tapped out."

Mr Joe Prendergast, analyst at Merrill Lynch in London, said reports of the US avoiding explicit mention of the dollar in the communique had "deflated any pro-dollar sentiment that was present after the meeting. It does not give the dollar bulls much to feed on at this point." He said the downside for the dollar also appeared very limited and that it was likely it would stay within recent flat ranges.

■ Traders had some reason to be stand-offish yesterday, given the multiple "event risks" that exist in the form of the FOMC meeting starting today, the Russian elections tomorrow, the Bank of Japan branch managers meeting, as well as industrial production data in Germany and the employment report in the US.

Mr Avinash Persaud, currency strategist at JP Morgan in London, said there were three factors currently supporting the dollar and "high-yielders". These were investors high appetite for risk, the possibility that election uncertainty in Russia would drag the dollar lower, and the disappointment dollar bears would feel in the G-7 communique. He said they had "avoided references to the dollar like the plague," disappointing those who had hoped they would say the dollar had moved far enough.


Source: FT Extel

■ Pound in New York

Jul 1	Latest	Prev. close
£ spot	1.5550	1.5525
1 mth	1.5545	1.5521
3 mth	1.5542	[illegible]
1 yr	1.5546	[illegible]

■ OTHER CURRENCIES

Jul 1	£	$
Czech Rp	42.7255 - 42.7670	27.4600 - 27.4840
Hungary	233.310 - 233.498	150.080 - 150.050
Iran	4665.38 - 4666.20	3000.00 - 3000.00
Kuwait	0.4662 - 0.4665	0.2997 - 0.3002
Poland	4.2377 - 4.2412	2.7245 - 2.7255
Russia	[illegible]	[illegible]
UAE	5.7135 - 5.7159	3.6729 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jul 1		Closing mid-point	Change on day	Bid/offer spread	Day's high	Day's low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.6802	+0.0354	720 - 884	16.6890	16.6257	16.6429	2.2	16.5739	2.5	-	-	104.8
Belgium	(BFr)	48.7880	+0.107	833 - 066	48.8090	48.6180	48.691	2.3	48.501	2.5	47.711	2.2	106.4
Denmark	(DKr)	9.1323	+0.0188	279 - 366	9.1370	9.1048	9.1185	1.8	9.0983	1.5	8.9904	1.5	107.3
Finland	(FM)	7.2328	+0.014	255 - 402	7.2405	7.1980	7.2284	0.7	7.2203	0.7	-	-	83.5
France	(FFr)	8.0180	+0.0168	134 - 186	8.0186	7.9904	8.0058	1.8	7.981	1.7	7.8876	1.6	109.0
Germany	(DM)	2.3701	+0.005	690 - 712	2.3715	2.3628	2.3657	2.3	2.3586	2.3	2.3178	2.2	108.1
Greece	(Dr)	373.427	-0.646	203 - 651	375.422	371.298	-	-	-	-	-	-	67.7
Ireland	(I£)	0.9728	[illegible]	721 - 735	0.9735	0.9717	0.9722	0.6	0.9711	0.7	0.9665	0.6	99.9
Italy	(L)	2388.81	+6.41	661 - 001	2390.10	2377.85	2393.86	-2.8	2408.71	-2.8	2438.21	-2.0	76.7
Luxembourg	(LFr)	48.7880	+0.107	833 - 066	48.8090	48.6180	48.691	2.3	48.501	2.3	47.715	2.2	106.4
Netherlands	(Fl)	2.6583	+0.006	569 - 597	2.6596	2.6501	2.6522	2.8	2.6402	2.7	2.5925	2.5	106.5
Norway	(NKr)	10.1140	+0.02	059 - 221	10.1266	10.0876	10.1056	1.0	10.0885	1.0	10.005	1.1	98.7
Portugal	(Es)	243.771	+0.298	636 - 906	244.815	243.230	244.198	-2.1	245.101	-2.2	-	-	94.5
Spain	(Pta)	199.416	+0.202	340 - 492	199.490	198.986	199.676	-1.6	200.191	-1.6	201.891	-1.1	80.4
Sweden	(SKr)	10.3367	+0.0285	266 - 468	10.3438	10.2984	10.339	0.0	10.3391	0.0	10.337	0.0	90.2
Switzerland	(SFr)	1.9431	-0.0017	416 - 445	1.9484	1.9396	1.9381	3.1	1.9273	3.3	1.8791	3.3	111.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	86.5
Ecu	-	1.2508	+0.0026	496 - 509	1.2510	1.2468	[illegible]	1.2	1.246	1.4	1.2327	1.4	-
SDR†	-	1.07286	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5556	+0.002	551 - 561	1.5586	1.5514	-	-	-	-	-	-	-
Brazil	(R$)	1.5620	+0.0019	615 - 625	1.5630	1.5567	-	-	-	-	-	-	-
Canada	(C$)	2.1206	-0.0019	191 - 208	2.1220	2.1166	2.1190	0.4	2.1167	0.8	2.1076	0.6	84.6
Mexico	(New Peso)	11.8572	+0.0786	366 - 597	11.8639	11.7913	-	-	-	-	-	-	-
USA	($)	1.5558	+0.002	554 - 561	1.5581	1.5519	1.5554	0.2	1.5551	0.2	1.5568	0.0	87.1
Pacific/Middle East/Africa													
Australia	(A$)	1.9767	+0.0015	746 - 785	1.9774	1.9668	1.9788	-1.6	1.9833	-1.5	2.0096	-1.7	88.2
Hong Kong	(HK$)	12.0424	+0.0152	393 - 455	12.0469	12.0136	12.0343	0.8	[illegible]	-0.7	[illegible]	0.3	-
India	(Rs)	54.2958	-0.4429	724 - 191	54.6580	53.9710	-	-	-	-	-	-	-
Israel	(Shk)	4.9859	-0.0165	815 - 903	4.9979	4.9731	-	-	-	-	-	-	-
Japan	(Y)	170.471	+0.048	394 - 549	170.730	170.050	169.745	5.1	168.256	5.2	161.841	5.1	139.3
Malaysia	(M$)	3.8770	-0.0001	752 - 788	3.8787	3.8684	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2710	+0.0029	697 - 723	2.2755	2.2652	2.276	-2.6	2.2864	-2.5	2.3186	-2.1	109.0
Philippines	(Peso)	40.7373	+0.029	770 - 000	40.8070	40.6726	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8349	+0.0075	334 - 363	5.8365	5.8206	-	-	-	-	-	-	-
Singapore	(S$)	2.1962	+0.0021	951 - 972	2.1977	2.1913	-	-	-	-	-	-	-
South Africa	(R)	6.7372	+0.0067	318 - 426	6.7496	6.7244	-	-	-	-	-	-	-
South Korea	(Won)	1259.82	-0.46	956 - 029	1260.81	1255.86	-	-	-	-	-	-	-
Taiwan	(T$)	42.8803	+0.0411	517 - 488	42.8800	42.7081	-	-	-	-	-	-	-
Thailand	(Bt)	39.4928	+0.0275	683 - 172	39.5180	39.3980	-	-	-	-	-	-	-

† Rates for Jun 28. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 1		Closing mid-point	Change on day	Bid/offer spread	Day's high	Day's low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.7217	+0.009	185 - 248	10.7350	10.7040	10.7085	2.2	10.6802	2.8	10.4767	2.3	104.7
Belgium	(BFr)	31.3585	+0.0285	510 - 660	31.3880	31.3110	31.3035	2.1	31.1885	2.2	30.6485	2.3	108.2
Denmark	(DKr)	5.8700	+0.0045	685 - 715	5.8795	5.8635	5.8625	1.5	5.8455	1.7	5.7765	1.6	108.5
Finland	(FM)	4.6491	+0.003	451 - 526	4.6558	4.6327	4.6426	1.7	4.6306	1.6	4.5851	1.4	83.1
France	(FFr)	5.1525	+0.0042	520 - 530	5.1630	5.1456	5.1458	1.6	5.1313	1.6	5.0655	1.7	106.6
Germany	(DM)	1.5235	+0.0013	231 - 238	1.5272	1.5219	1.521	2.0	1.5152	2.2	1.487	2.4	107.7
Greece	(Dr)	240.030	-0.725	940 - 120	241.740	239.100	241.705	-8.4	245.055	-8.4	259.03	-7.9	65.9
Ireland	(I£)	1.5993	+0.0018	985 - 000	1.6005	1.5940	1.5998	-0.4	1.6007	-0.4	1.5922	0.4	-
Italy	(L)	1535.15	+2.15	440 - 590	1536.50	1531.40	1539.9	-3.7	1549.05	-3.4	1570.8	-2.3	76.4
Luxembourg	(LFr)	31.3585	+0.0285	510 - 660	31.3880	31.3110	31.3055	2.0	31.199	2.0	30.7185	2.0	108.2
Netherlands	(Fl)	1.7087	+0.0017	082 - 092	1.7109	1.7069	1.7054	2.4	1.6983	2.4	1.6665	2.5	106.1
Norway	(NKr)	6.5011	+0.0045	973 - 048	6.5155	6.4972	6.4961	0.5	6.4925	0.5	6.4561	0.7	97.9
Portugal	(Es)	156.690	-0.01	640 - 740	157.080	156.610	157.005	-2.4	157.595	-2.3	159.74	-1.9	94.6
Spain	(Pta)	128.180	-0.095	160 - 200	128.370	128.150	128.43	-2.3	128.86	-2.1	130.4	-1.7	80.1
Sweden	(SKr)	6.6456	+0.0098	405 - 506	6.6539	6.6296	6.6566	-2.0	6.674	-1.7	6.718	-1.1	89.9
Switzerland	(SFr)	1.2490	-0.0027	485 - 495	1.2558	1.2485	1.2456	3.4	1.239	3.5	1.2046	3.6	110.9
UK	(£)	1.5558	+0.002	554 - 561	1.5581	1.5519	1.5554	0.3	1.5551	0.2	1.5568	0.0	85.9
Ecu	-	1.2444	-0.001	440 - 447	1.2459	1.2425	1.2451	-0.7	1.2468	-0.8	1.2555	-0.9	-
SDR†	-	0.69234	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-	995 - 997	0.9997	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0040	-0.0001	039 - 041	1.0042	1.0038	-	-	-	-	-	-	-
Canada	(C$)	1.3627	-0.003	624 - 629	1.3643	1.3620	1.3625	0.1	1.3628	0.0	1.3656	-0.2	83.7
Mexico	(New Peso)	7.6215	+0.0415	190 - 240	7.6240	7.6160	7.789	-26.4	7.988	-18.2	9.7315	-27.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.9
Pacific/Middle East/Africa													
Australia	(A$)	1.2696	-0.0007	690 - 702	1.2706	1.2680	1.2716	-1.9	1.2759	-1.7	1.294	-1.9	94.4
Hong Kong	(HK$)	7.7406	-0.0002	405 - 406	7.7413	7.7402	7.7413	-0.1	7.7431	-0.1	7.7701	-0.4	-
India	(Rs)	34.9000	-0.38	000 - 000	35.1000	34.7000	35.05	-5.2	35.355	-5.2	36.825	-5.5	-
Israel	(Shk)	3.2046	-0.0148	027 - 066	3.2205	3.2030	-	-	-	-	-	-	-
Japan	(Y)	109.575	-0.11	550 - 600	109.850	109.550	109.13	4.9	108.23	4.9	104.49	4.6	139.8
Malaysia	(M$)	2.4920	-0.0099	915 - 925	2.4950	2.4910	2.4929	-0.4	2.499	-1.1	2.5225	-1.2	-
New Zealand	(NZ$)	1.4596	-	592 - 608	1.4627	1.4590	1.4627	-2.5	1.4685	-2.4	1.4931	-2.3	-
Philippines	(Peso)	26.1850	-0.015	500 - 200	26.2200	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7506	3.7504	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4110	-0.0005	100 - 120	1.4129	1.4100	1.4075	3.0	1.4015	2.7	1.376	2.5	-
South Africa	(R)	4.3305	-	280 - 330	4.3380	4.3280	4.378	-13.2	4.468	-12.7	4.8055	-11.0	-
South Korea	(Won)	809.850	-1.35	800 - 900	810.500	809.400	-	-	-	-	-	-	-
Taiwan	(T$)	27.5110	-0.009	060 - 160	27.5360	27.4850	27.516	-0.2	27.521	-0.1	-	-	-
Thailand	(Bt)	25.3850	-0.015	760 - 960	25.3950	25.3750	25.4825	-4.7	25.6675	-4.5	26.57	-4.7	-

† SDR rate per $ for Jun 28. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 28: Base average 1990=100.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

WORLD INTEREST RATES

UK INTEREST RATES

BASE LENDING RATES

COMMODITIES AND AGRICULTURE

Caribbean growers seek truce in banana battle

By Canute James in Kingston

Caribbean banana exporters, whose preferential access to the European market is under attack from the US and several Latin American producers, are seeking a truce in the row.

They have asked US president Bill Clinton to withdraw a complaint to the World Trade Organisation about the European regime and are seeking a negotiated settlement to the protracted quarrel, which they say could damage several island economies and which has led the US to threaten trade sanctions that could cost exporters about $1bn.

The Caribbean producers made their request in a letter sent to Mr Clinton, but some US and Caribbean government officials said they did not expect this to have any impact on the US decision to put the issue before the WTO. The sending of the letter suggested that the banana producers wanted a truce, fearing that it will be difficult to defend the EU import regime before the WTO, they said.

The EU banana import regime favours Europe's traditional suppliers in the African, Caribbean and Pacific group, with which the EU has a trade treaty, and imposes quotas on imports of bananas from Latin American countries. US banana companies operating in Latin American claim that the EU regime is discriminatory. The US decision to file a complaint with the WTO has been supported by Mexico, Honduras and Guatemala.

The letter to Mr Clinton was written by Mr Percival Patterson, prime minister of Jamaica, who is responsible for international trade issues for the 14-nation Caribbean Community (Caricom). The four Windward Islands of the Caribbean, the source of most bananas consumed in Britain, are economically dependent on the European market. Jamaica, Surinam and Belize are other banana exporters in the community.

The Caribbean countries told Mr Clinton that the European market provided the base for many island economies and that these would be damaged if the preferences were removed. Any disruptions to the banana producers' economies could also affect other members of the community, they said.

Caricom producers claim that the dismantling of the EU regime and an opening of the market would destroy their banana industries because they would be unable to compete with cheaper Latin American fruit. Latin producers have lower production costs, say Caribbean governments, because of large farms of thousands of acres on flat land. Caribbean island farmers use smaller plots often in hilly terrain. The Caribbean governments also claim that the islands' farmers pay higher wages to workers than those paid to workers on Latin American farms.

Banana exports to Europe account for 50 per cent of the export earnings of the four Windward Islands, while the region and Europe's other traditional sources in Africa and the Pacific supply 16 per cent of the EU market and 3 per cent of world production, according to the Caribbean Community.

The future of the region's banana market and the likely impact of the complaint to the WTO will be discussed this week by Caricom leaders who are meeting in Barbados.

MARKET REPORT

Coffee price slides as frost scare passes

London Commodity Exchange robusta COFFEE futures ended sharply lower yesterday after a sell-off following a frost-free weekend in Brazil.

Independent forecaster Weather Services Corp said there was no damaging cold over key coffee areas at the weekend but there might have been some patchy frost in Parana state. A WSC official said milder weather was forecast for the coffee regions for the rest of the week.

The LCE September delivery position ended at $1,725 a tonne, $56 below Friday's close after dipping to $1,716.

COCOA futures were also lower on the day on what one trader thought was "the continuation of the sentiment in the last half of last week".

Continuing reports of poor development of the Ivory Coast crop seemed to have taken a back seat, others said.

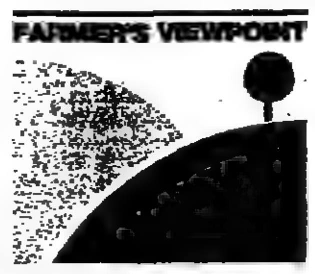
At the close, the September delivery stood £26 down at £1,039 a tonne, just below the key £1,040 support level.

Compiled from Reuters

BSE teaches meat producers the importance of quality assurance

The job must not just be done right but be seen to be done right

FARMER'S VIEWPOINT



By David Richardson

The Royal Agricultural Show, which opened for its 4-day run yesterday, is billed by its organisers as a business event. Some business is undoubtedly done there and more initiated, requiring further negotiation to seal the deal. But it is also a very important occasion for farmers to meet and talk to friends and business acquaintances they may not have seen for 12 months.

It is not, of course, possible to monitor every conversation. If it were I would bet that this year most will begin with discussion about the weather and the differences in rainfall across the country. The result is that some farms, particularly in the eastern counties, are like deserts and crops on others in the west and north look reasonably promising. The talk will almost certainly then continue with comments on BSE, the so-called "mad cow disease", and the "mess the British government has gotten us into".

If the farmers concerned are forward-looking they will go on to discuss measures each is taking to ensure an outlet for cattle and other produce after the BSE crisis is over. Marketing of farm commodities will never be quite the same again after BSE and a growing number of farmers are recognising that and taking action.

Predictably, meat producers have begun to act first by joining their sector's quality assurance scheme. Launched in 1992, Farm Assured British Beef and Lamb got off to a slow start. The scheme sought to assure buyers and beyond them consumers not just of the high quality of the meat but also of the origins, feeding, welfare and management of the animals concerned. By the end of 1993 just 500 of the beef producers of England and Wales had decided to subject their farms to the examination required and joined the scheme. A similar scheme in Scotland got off to an equally slow start.

At the end of 1994 membership of FABBL had grown to 1,000 and a year later to 2,000. The scheme was clearly gathering momentum and by March 20 1996, the day on which Mr Stephen Dorrell made his fateful announcement in the House of Commons on the possibility of a link between BSE and Creutzfeldt-Jakob Disease, its human equivalent, 4,000 beef farmers had signed up. By the end of last week, however, just 100 days after that announcement, membership of FABBL had jumped to 9,300. In effect this means that an estimated 25 per cent of this country's serious beef producers have been inspected and accepted into the scheme and can now market their animals with quality assurance.

It also implies that they must have been doing most of the right things before the inspection; they had just not bothered to have their production systems checked and vindicated. BSE has made them realise that this was no longer acceptable to buyers; that they must not just do the job right but be seen to be doing it right. Indeed some traders are saying that meat producers who are not able or prepared to provide the quality assurances now demanded will soon find it difficult if not impossible to market their animals.

Some top food retailers have been insisting on such standards for some time. Marks and Spencer, for instance, claims to have bought beef cattle only from known and named producers who have been inspected and approved for some years. Last month the company launched its Select Farm Scheme for Aberdeen Angus and traditional beef, which adds to and refines the way it acquires supplies.

Developed over five years in conjunction with the Agricultural Development and Advisory Service and M&S specialist beef supplier Scotbeef it covers stockmanship, traceability, health, feed and housing. All supplying farms will be inspected once a year by M&S to ensure standards are maintained and in addition ADAS will conduct a number of spot-check audits every year. M&S also seeks to guarantee consistent tenderness and flavour, so stipulates the breed, sex, age, and pre- and post-slaughter techniques. All animals will come from known BSE-free herds.

Tesco also launched a quality beef scheme last month, clearly in response to BSE fears. The company announced that it was setting up a 6,000-member producer's group – a partnership with beef farmers in order to ensure that all animals would be able to be traced to the farm of origin, were reared to high welfare standards and conformed to the company's specifications on fat and weight. The company hopes to recruit producers at the Royal Show.

Sainsbury and Safeway and most other major retailers have their own supply arrangements, which are intended to deliver similar standards of quality and origin. Some individual farmers who have been able to justify claims that they have never had a case of BSE on their farms and that their production systems are acceptable and comply with high standards of welfare have already cashed in on their status by selling to local consumers at premium prices. The days of sending unidentified livestock to an auction market in the hope that they will make a good price are almost over.

Pig farmers have been working towards similar goals for several years although, paradoxically, progress has slowed recently as pig prices and profit margins have increased. Again an implication can be drawn from this; that many farmers will only take action to secure their markets when there really is no alternative.

Meanwhile some arable farmers and those to whom they sell grain and other commodities are preparing quality assurance schemes for what they produce. This poses more problems than those for animals or even vegetables. For while individual animals can be readily identified as can cabbages when they are packed in a plastic bag and labelled, grain and other bulk commodities are not so easy. It is neither practical nor economic to store the produce of each field separately and the mixing of crops that may have been treated differently is inevitable. The ability to give full traceability may therefore be compromised.

Plans are therefore being made to try to provide whole crop or better still whole farm traceability and quality assurance to acceptable standards. The scheme which is being driven by the NFU and Leaf (linking environment and farming) of which I am chairman, and worked out in conjunction with the entire food trade is unlikely to be ready for the coming harvest. But it should be operating by harvest 1997 by which time, it is anticipated, consumer demand for it will have become irresistible.

BSE is the result of a series of expensive and tragic mistakes. But here in the UK the indirect consequence could be the safest and most ethically produced food in the world.

Texas retracts strawberry health warning

By Christopher Parkes in Los Angeles

Texas health officials have retracted a warning against eating fresh strawberries that had fuelled a parasite-poisoning scare in several US states and sparked a clash with California's powerful farming lobby.

The search for the source of the rare cyclospora parasite which has since May infected several hundred people in far-apart regions including Florida, Texas and New York – but not California, source of 80 per cent of the nation's strawberries – is being extended to other produce.

Guatemalan raspberries also figured among the early suspects.

The number of confirmed infections is uncertain because few doctors are familiar with the protozoan parasite, first identified in 1993 at the University of Arizona, and which can cause weeks of diarrhoea, dehydration and extreme fatigue.

The agent is usually found in water contaminated with faeces and thrives in warm, humid conditions.

The Texan authorities issued a local warning in Houston on June 8 after two clusters of infection appeared in which strawberries were "a common denominator", according to yesterday's statement.

Reports of further isolated cases were still coming in, the state health department said, but "we have found no new clusters to support continuing the advisory against eating strawberries". Of 68 cases reported in Texas, 62 occurred in Houston.

The California Strawberry Commission on Wednesday issued a statement saying no traces of cyclospora had been found on crops grown in the state, and attacking the Texas authorities. "The rush by Texan health officials to indict strawberries has made it considerably more difficult to find the real [source of the] problem," it said.

In the largest Texan outbreak, a dessert suspected as the prime source included one strawberry per serving as a garnish, the commission claimed.

Coming at the peak of a promising season, after two poor crop years for Californian growers, the Texan action was followed by similar warnings in New Jersey and Toronto, Canada, although federal disease control agencies issued no recommendations.

Strawberries ranked as California's tenth most important crop last year, with a wholesale value of more than $600m. Although the peak season is finishing, huge tonnages remain to be picked for freezing and other processes.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1458-59	1496-97
Previous	1470-72	1509-09.5
High/low	1463/1459	1509/1486
AM Official	1462.5-63	1500-1500.5
Kerb close		1490-91
Open int.	239,246	
Total daily turnover	73,203	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1245-50	1280-85
Previous	1255-65	1290-5
High/low		1290/1282
AM Official	1250-60	1280-90
Kerb close		1280-85
Open int.	5,295	
Total daily turnover	587	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	782-3	791-2
Previous	793-4	801-2
High/low	784/782	795/784
AM Official	782-2.5	793-3.5
Kerb close		785-7
Open int.	32,992	
Total daily turnover	8,517	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7575-85	7690-700
Previous	7645-55	7750-65
High/low	7610/7600	7730/7670
AM Official	7610-15	7715-17
Kerb close		7665-70
Open int.	42,159	
Total daily turnover	13,147	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6290-300	6320-30
Previous	6295-305	6325-30
High/low	6275	6320/6300
AM Official	6275-76	6308-10
Kerb close		6305-10
Open int	15,720	
Total daily turnover	5,469	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1000.5-4.5	1021-32
Previous	1015-6	1042-3
High/low	1009	1042/1026
AM Official	1009.5-9	1036.5-37
Kerb close		1028-28.5
Open int.	68,222	
Total daily turnover	13,797	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1943-46	1910-15
Previous	2005-10	1962-5
High/low	1950/1905	1940/1860
AM Official	1945-50	1915-20
Kerb close		1857-60
Open int.	203,761	
Total daily turnover	57,728	

■ LME AM Official £/$ rate: 1.5546
LME Closing £/$ rate: 1.5553

Spot: 1.5550 3 mths: 1.5545 6 mths: 1.5544 9 mths: 1.5546

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	89.45	-2.40	91.80	88.40	234	6,090
Aug	89.45	-1.85	91.00	89.40	80	2,160
Sep	88.25	-2.15	91.00	88.30	5,797	19,511
Oct	88.45	-2.15	90.20	87.50	13	1,208
Nov	88.45	-1.90	90.50	89.50	2	1,087
Dec	88.05	-2.05	90.60	85.10	689	12,058
Total					10,817	57,225

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	381.90-382.30		
Opening	381.30-381.70		
Morning fix	380.60	245.03	475.87
Afternoon fix	381.55	245.51	477.13
Day's High	392.10-392.50		
Day's Low	380.20-380.60		
Previous close	382.10-382.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.05	6 months	3.85
2 months	4.00	12 months	3.84
3 months	3.94		

Silver Fix	p/troy oz.	US cts equiv.
Spot	324.70	504.75
3 months	328.75	510.80
6 months	332.90	517.40
1 year	341.40	530.60

Gold Coins	$ price	£ equiv.
Krugerrand	382.5-385.5	246-248
Maple Leaf	391.15-393.60	-
New Sovereign	87-89	56-58

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	381.3	+1.2	-	-	30	38
Aug	382.7	+1.1	384.0	381.4	30,148	90,663
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.) [illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) [illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.) [illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel) [illegible]

■ CRUDE OIL IPE ($/barrel) [illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls) [illegible]

■ GAS OIL IPE ($/tonne) [illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls) [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	110.65	-0.35	110.25	110.25	20	236
Sep	115.00	+0.25	-	-	-	416
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel) [illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel) [illegible]

■ BARLEY LCE (£ per tonne) [illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel) [illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb) [illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton) [illegible]

■ POTATOES LCE (£/tonne) [illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point) [illegible]

FUTURES DATA
All futures data supplied by CMS.

[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100) [illegible]

■ CRB Futures (Base: 1967=100) [illegible]

■ GSCI Spot (Base: 1970=100) [illegible]

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1012	-25	1025	1008	100	3,600
Sep	1040	-25	1067	1032	2,142	42,681
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes) [illegible]

■ COCOA (ICCO) (SDR's/tonne) [illegible]

■ COFFEE LCE ($/tonne) [illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs) [illegible]

■ COFFEE (ICO) (US cents/pound) [illegible]

■ WHITE SUGAR LCE ($/tonne) [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs) [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs) [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	65.725	-0.100	66.400	65.600	7,426	36,723
Oct	67.850	+0.300	67.925	67.200	4,170	25,592
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs) [illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb) [illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME [illegible]

■ COPPER (Grade A) LME [illegible]

■ COFFEE LCE [illegible]

■ COCOA LCE

950	102	118	12	32
975	83	102	18	41
1000	67	88	27	52

■ BRENT CRUDE IPE

	Aug	Sep	Aug	Sep
1800	-	-	-	24
1850	84	-	-	46
1900	-	44	20	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.70-7.94	+0.225
Brent Blend (dated)	$19.54-9.62	+0.33
Brent Blend (Aug)	$19.32-9.34	+0.27
W.T.I.	$21.36-1.38x	+0.325

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$204-207	+3
Gas Oil	$174-176	+4
Heavy Fuel Oil	$84-86	
Naphtha	$178-180	+3.5
Jet fuel	$198-200	+4
Diesel	$178-179	+5

■ NATURAL GAS (Pence/therm)

Bacton (Aug)	12.00-12.75

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHERS

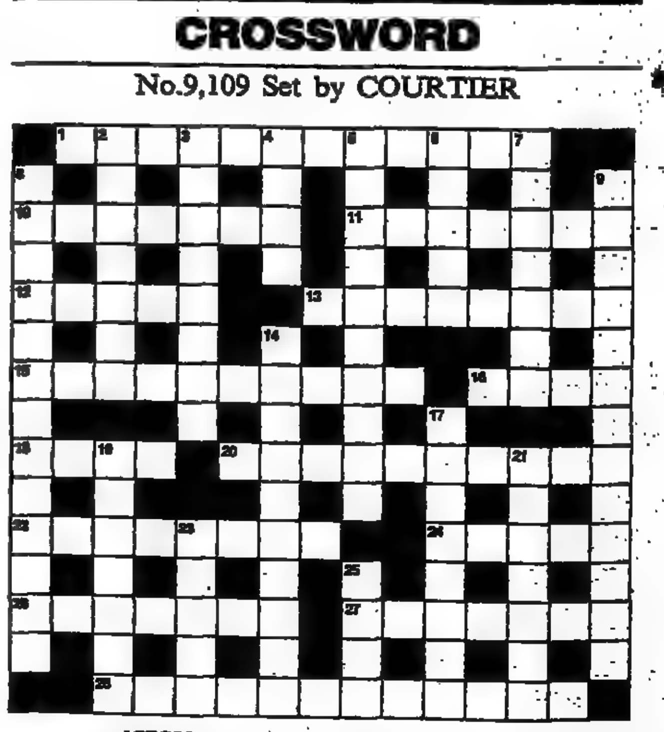
Gold (per troy oz)♣	$382.10	-0.15
Silver (per troy oz)♣	508.50c	+4.00
Platinum (per troy oz.)	$393.25	+3.90
Palladium (per troy oz.)	$133.75	+1.40
Copper	97.0c	-10.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.52r	+0.24
Tin (New York)	295.50	+2.0
Cattle (live weight)	100.99p	+2.75*
Sheep (live weight)	111.90p	-1.96*
Pigs (live weight)†	116.76p	+2.36*
Lon. day sugar (raw)	$305.50	-4.00
Lon. day sugar (wte)	$380.00	+1.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Aug)♥	95.50p	-1.75
Rubber (Sep)♥	95.50p	-1.75
Rubber (KL RSS No1)	354.00m	-1.50
Coconut Oil (Phil)§	820.0w	+8.0
Palm Oil (Malay.)§	$500.0z	+6.0
Copra (Phil)§	$538.0w	
Soyabeans (US)	213.0	+3.0
Cotton Outlook'A' index	79.85c	-0.75
Wooltops (64s Super)	434p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Aug. w Jul/Aug. z Jul/Sep ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 583 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,109 Set by COURTIER



ACROSS

1 To munch one on a vessel is a sporting contest (12)
10 Keepsake to end my association with males (7)
11 The Danish in Paris, for example (7)
12 Update the lady with a direction (5)
13 Dig around in dilapidated store and become heavier (8)
15 Fighters search a square in front of workers (10)
16 Short note to Maine doctor (4)
18 Drinks have a little twist on reflection (4)
20 Redraw pool for site of 1877 court contest (6,4)
22 Guardian's role: surround a number with an armed vessel (8)
24 Perhaps once surrounded a body of water (5)
26 See 25 down
27 One who expels oriental winner (7)
28 Power source singed Eileen dreadfully (6,6)

DOWN

2 Definition that all's fair at the fair, for example (7)
3 Chaps insist it's their fashion (8)
4 The oracle at Delphi continues to provide the image (4)
5 We hear titled chap stays where caravans rest (10)
6 Bowler Edward is unpopular (5)
7 Gunners left in hunger for a nutty sweet (7)
8 Transatlantic confidence trick involved service type (8,5)
9 Most unusual tax order involved in a railway (13)
14 Important matter could produce serious jam (5,5)
17 Attractive company with a number in existence (8)
19 Figure that leads to my rapid confusion (7)
21 Sit out too long, perhaps, avert no affliction (7)
23 Present delivery to start the point (5)
25 and 26 across Separate MPs from leading racketeer (4,7)

Solution to Saturday's prize puzzle on Saturday July 13.
Solution to yesterday's prize puzzle on Monday July 15.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Ivory Growth Fund	£23.5	23.74	—	1.13
Lowes Aggressive Portfolio	£11.8	12.42	-0.0900	-
Lowes Defensive Ptfolio	£12.09	12.73	-0.0200	-
Lowes Collective Ptfolio Ltd.	£11.33	11.89	-0.1000	-

For Scimitar see Group [illegible]

TSB Fund Managers (CI) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
TSB Island Pension	717.9	755.8	+0.8	-
Island Equity Acc	125.5	132.2	+0.1	-

WMS Asset Management (Jersey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
[illegible]	$987.07	987.22xd	—	-

Worldinvest (Managers) Jersey Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Worldinvest Inc Fd †	£231.25	232.52xd	--	5.96
Excalibur Global Eqty $ *	$82.71	83.13	---	-
Excalibur Stg Global Fund Inc*	£11.63	11.70xd	—	4.97

Valued weekly. * Mondays. † Wednesdays.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monnet, L-2180 Luxembourg 352 424949320

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Latin America Equity		$47.99	48.71	—	-
North America Equity		$74.45	74.82	—	-
Asian Tigers Equity		$82.10	82.72	—	-
Europe Equity		[illegible]	68.54	—	-
Germany Equity		[illegible]	124.10	—	-
Japan Equity		[illegible]	53.32	—	-
Europe Bond		[illegible]	56.50	—	-
US Bond		$57.10	57.24	—	-
Global Bond		$58.17	58.32	—	-
Germany Bond B		[illegible]	110.51	—	-

Eigletan Global SICAV (u)

13 Rue Goethe, L-1637, Luxembourg 00 352 404646215

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Equity Portfolio Jun 27		$2.377		-0.027	-
Reserve Portfolio Jun 27		$2.031		+0.000	-

EquiFund–Wright National Eqty Fd (u) (x)

14 rue Aldringen, L-1118 Lux 00 352 478 66600

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Australian Nat		A$15.86	16.02	--	-
Austrian Nat Equity		[illegible]	69.21	—	-
Belgium/Lux Nat. Eqty		BFr741	749	—	-
French Nat Equity		[illegible]	135.21	—	-
German Nat Equity		[illegible]	18.45	—	-
Dutch Nat Equity		[illegible]	38.68	--	-
Italian Nat Equity		L12424	12548	—	-
Japanese Nat Equity		Y1408	1420	—	-
Hong Kong Nat Equity		[illegible]	118.69	—	-
Spanish Nat Equity		Pta1224	1236	—	-
Uk Nat Equity		£10.21	10.31	—	-
United States Dlr Res		$10.98		--	-

Fidelity Funds (u)

Kansallis Hse, Place de L'Etoile, L-1021 Lux BP 2174

UK-01732 777377 Lux-00 352 250 404 1230

Major Market Funds

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
America		$2.263		+0.036	-
Europe		DM4.762		+0.022	-
International		$16.43		+0.21	-
Japan		Y146.5		+0.2	-
Pacific		$9.395		+0.001	-
South East Asia		$2.624		+0.005	-

Country Select Funds

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
ASEAN		$22.67		+0.07	-
Asian Special Situations		$11.05		+0.02	-
Australia		A$15.63		--	-
Emerging Markets		$8.916		-0.010	-
European Sm Cos F		DM13.23		+0.08	-
France		FFr86.70		+0.41	-
Germany		DM20.41		+0.07	-
Hong Kong		$44.12		+0.01	-
Iberia		Pta1808		+12	-
Indonesia		$11.21		-0.04	-
Italy		L15323		+71	-
Japan Small Cos		Y1208		+8	-
Korea F		$9.261		-0.003	-
Latin America		$8.579		+0.034	-
Malaysia		$33.66		-0.05	-

Manulife Regent Global Fund (u) (z)

13 rue Goethe, L-1637

	Selling Price
American Gth Fund	$10.507
European Gth Fund	$5.320
Global Resources Fund	$4.022
Intl Growth Fund	$2.207
Japanese Gth Fund	$2.521
Pacific Basin Gth Fund	$3.548
Reserve Fund	$2.221
Tiger Fund	$2.293
UK Gth Fund	£2.022

Mercury Asset Management S.A.

B.P. 1058, L-1010 Luxembourg

Mercury Selected Trust-SICAV (u)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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Old Mutual International - Contd.

	Selling Price	Buying Price	+ or -	Yield Gross
£ OFS Global Port	£1.390	1.404	—	—
£ YRA Worldwide	£1.468	1.090	—	—
$ YRA Dlr Worldwide	$1.540	1.696	—	—
Young & Co Blncd P'folio	$1.309	1.408	—	—
Pioneer Mid Term Agg	$1.078	1.159	—	—
Pioneer Long Term Cons	$1.118	1.200	—	—
Pioneer Long Term Agg	$0.988	1.090	—	—
$ Thomas Haywood Man.	$1.180	1.268	—	—
Arden International Managed	$0.966	1.033	—	—
Ungate Intl Ltd Global Bonds	DM93.0	100.0	—	—

PanEuroLife societe anonyme

36 Av Marie-Therese, Luxembourg 00 352 456730

	Selling Price	Buying Price	+ or -	Yield Gross
French Balanced Jun 28	FFr6901.00	+30.18	—	
German/Benelux Jun 28	DM3096.38	+8.75	—	
Global Equities Jun 28	$1363.53	-3.88	—	
UK Secure Gth Jun 30	£980.30	+1.52	—	
US Secure Growth Jun 28	$7107.85	+12.42	—	
Intl Real Estate Jun 30	Ecu1381.11	-0.81	—	
Fund of Funds Jun 28	Ecu1222.48	+4.09	—	

Premier Life

Alpha Fund Management Ltd - Contd.

Acorn Capital Advisors LLC

Arc Investment Company Ltd

Aristocrat Capital Management Ltd

Asia Pacific Capital Strategies Fund

Asia Pacific Securities Corp Ltd

Credit Suisse Investment Funds

OTHER OFFSHORE FUNDS

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd - Contd.

Xiphias International Investment Fd Ltd

Zurich Investment Management AG

Zweig-DiMenna International Limited

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

Notes	Price	+ or -	52 week High	Low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discount (Dis) or premium (Pm -) to the current closing share price.

a Yield based on annualised dividend. F Yield based on prospectus or other official estimates for 1996-97. FID (Foreign Income Dividend). Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

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LONDON STOCK EXCHANGE

MARKET REPORT

The feel-good factor returns to boost equities

By Steve Thompson,
UK Stock Market Editor

London's equity market built on last Friday's bond-led recovery, responding to the start of the third quarter and hopes of an influx of institutional cash.

And the market was less inclined to worry about the possibility of a shift in US interest rate policy after the Federal Reserve Open Market Committee meeting which gets under way today.

The market's more relaxed attitude towards the FOMC meeting saw Wall Street race higher at the opening yesterday, with the Dow Jones Industrial Average advancing more than 30 points in early trade.

At the end of a session featured by a low level of institutional activity, the FT-SE 100 index stood at the day's best level, up 14.6 at 3,725.6. That soothed the nerves of some traders who were worrying about a move below 3,650 as recently as last week.

The FT-SE Mid 250 index gave an even more emphatic response to the improved feeling around the market, climbing 17.2 to 4,370.4.

The London stock market's performance was impressive given that Treasury bonds made a poor start to the week after the US purchasing management survey for June proved stronger than expected.

Gilts were never a prop for the equity market, opening easier and struggling all day before finishing around 4 ticks lower in the face of some robust money supply figures and the monthly UK purchasing managers report.

The head of trading at one European securities house said he was impressed with the market's performance, given international worries about the health of Mr Boris Yeltsin, the Russian president.

He said the "feel-good" factor was beginning to emerge in the UK and could well introduce a much better feeling in the stock market, which might also be given a big boost by the emergence of any surprise takeover bids. Others said London had sorted itself out in the past couple of weeks but warned that the third quarter might see the emergence of a series of big rights issues.

The argument was also put forward that global asset allocators might still be reluctant to channel funds into the UK, with the possibility of a general election around the corner.

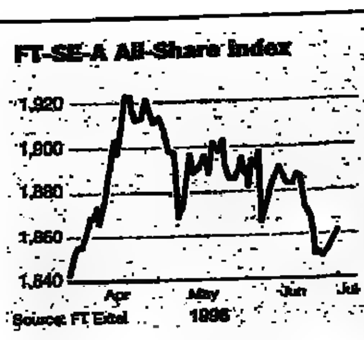
Turnover in equities at the 6pm reading came out at a relatively low 606.9m shares, with non-FT-SE 100 stocks accounting for 61 per cent of the total. Retail business on Friday was worth £1.79bn.

The latest survey of UK house prices, from the Nationwide Building Society, indicated a 0.5 per cent rise during June and gave a boost to the housebuilding sector and related building materials stocks. That news, plus last week's move by the Bradford & Bingley Building Society to remove its mortgage incentives, gave a big lift to other mortgage lenders as analysts factored in increased margins.

Abbey National was one of the main beneficiaries of the mortgage story, as were also Lloyds-TSB and HSBC.

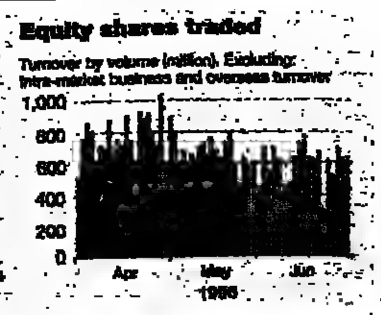
Revived takeover talk was the driving force behind Zeneca, while BP's recent underperformance against Shell triggered plenty of switching activity in the oil majors.

FT-SE-A All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3725.6	+14.6
FT-SE Mid 250	4370.4	+17.2
FT-SE-A 350	1878.2	+7.3
FT-SE-A All-Share	1862.96	+6.63
FT-SE-A All-Share yield	3.85	3.86

FT Ordinary Index	2736.8	+7.1
FT-SE-A Non Fins p/e	16.86	16.72
FT-SE100 Fut Jul	3720.0	+21.0
10 yr Gilt yield	7.91	7.89
Long gilt/equity yld ratio:	2.16	2.15

Best performing sectors

1. Building & Const ......+1.4
2. Electronic & Elec ......+1.4
3. Extractive Inds ......+1.3
4. Banks : Retail ......+0.9
5. Property ......+0.8

Worst performing sectors

1. Diversified Inds ......-0.8
2. Water ......-0.4
3. Transport ......-0.2
4. Telecommunications ......-0.2
5. Other Financial ......-0.2

Utility bid talk emerges

The prospect of further bids in the utility sector was enlivened by news that Southern, of the US, had sold its remaining stake in South Western Electricity.

The sale of 25 per cent to Pennsylvania Power and Light raised $189m. Southern said: "We may use the proceeds to further investments either in the UK or Europe."

Also, Wessex Water held up well, in spite of claims in one Sunday newspaper that Waste Management International is poised to sell its 20 per cent stake in the company.

Although the trading screens showed a fall of 7¼ on the day, that reflected a dividend payout of 10.2p and, in fact, the closing price of 349½p xd built on recent bid-related gains.

Wessex has been widely seen as the consolation prize for Southern Electric, which lost out to Scottish Power in a bid battle for Southern Water.

Mirror rallies

Mirror Group shares recovered 4 to 209p after a story whipped around the market that it might be on the brink of selling its 46 per cent stake in the loss-making Independent.

The story, which apparently emanated from a source within the trade press, was that Mr Tony O'Reilly – who heads Dublin-based Independent Newspapers – was poised to make his move for full ownership of a British national newspaper. Mr O'Reilly's group, which last week announced a I£106m rights issue, owns 46 per cent of the Independent.

Tomkins improves

Tomkins' presentation to analysts was described as upbeat and informative, and the shares added 6½ at 349p, turning in the day's second best Footsie performance.

The conglomerate was optimistic about volume growth at Gates Rubber, the US group to be acquired for $1.4bn, and was said to be hopeful of squeezing significant cash savings out of the company, possibly up to $300m over three years.

In contrast, BTR fell to the bottom end of the Footsie rankings on what looked to be disappointment with the group's latest disposal news. Analysts said the market had been hoping to hear about the sale of BTR's Taiwanese businesses.

The shares, which have come down from 320p since mid-May, fell 5 to 248½p in 11m traded.

Oil majors BP and Shell Transport moved in opposite directions, as a switching operation by some of the market's biggest brokers gathered pace. Kleinwort Benson became the latest broker to argue that BP is cheap, following a period of underperformance. It follows HSBC James Capel and NatWest Securities. And NatWest's support of BP was backed by the arrival of a long awaited strategic review of the sector. BP rose 6 to 570½p and Shell lost 5½ to 937½p.

Housebuilders bounced back after a couple of weeks of relative weakness, thanks to upbeat comment in the Sunday press and news of further progress on house prices.

Both the Halifax and Nationwide building societies put out positive news on house prices yesterday. And there was also tentative talk in the sector suggesting that the chancellor may have another interest rate cut up his sleeve.

Wimpey topped the FT-SE Mid 250 rankings with a rise of 10 to 159p and Barratt Developments added 8 at 262p. Berkeley, which puts out results today, gained 7 to 614p.

Among building materials issues, BPB Industries benefited from a NatWest Securities buy note, rising 9 to 328p. Pilkington put on 3 at 184p.

Abbey National, the bank most closely linked with the housing market, gained ground after more evidence of a strong recovery in the housing market. The Nationwide Building Society's house price index showed a 3.9 per cent year-on-year rise in June, taking house prices to their highest levels since 1991. Abbey ended 10 up at 551p.

Better than expected results from MFI Furniture lifted the shares 6 to 180p, with a number of analysts raising their forecasts. UBS moved the stock from "hold" to "buy". Volume, at 13m, was bolstered by a placing of about 4.5m shares owned by employees through a staff incentive scheme.

Great Universal Stores rose 6 to 660p, with the share buyback at Boots last week raising hopes of a similar move at cash-rich GUS. Boots rose 5 to 584p, with the market optimistic about the outcome of a presentation by the company on Boots the Chemist today.

Kwik Save advanced 10 to 463p following the announcement that Franklin Resources, of the US, had lifted its stake to 10.11 per cent, from 9.5 per cent in early June.

A broker recommendation on Pearson, the media conglomerate which owns the Financial Times, appeared to be taken the wrong way.

Goldman Sachs altered earnings estimates to allow for the sale of Westminster Press and redundancy costs and the shares slipped 2 to 662p. But the downgrade was part of a wider re-evaluation, which Goldman argued puts a fair value of 720p on the shares.

Regional television company HTV jumped 10 to 329p after Panmure Gordon highlighted the stock in its most recent guide to perceived fair value. The broker pointed out that the shares were 23 per cent off their recent high. It added that, with the Broadcasting Bill expected to receive Royal Assent by the end of the week, the company would become vulnerable to a takeover.

Electronics group Psion jumped more than 17 per cent as the successful conclusion to the bid talks with Amstrad appeared to move a step closer.

Amstrad is reshuffling its corporate pack in a move that analysts described as paving the way for Psion's takeover. Betacom, the separately listed Amstrad unit which is to receive half of Amstrad's ACE operation, rose 14½ to 29p.

Psion gained 60 to 410p and Amstrad improved 6 to 196p. Ahead of tomorrow's results statement, GEC added 7 to 354p in 9.5m traded.

Several brokers, including Kleinwort Benson and SBC Warburg, were recommending Holliday Chemical following a visit by analysts to the company's Spanish subsidiary. The shares closed 6 higher at 130p.

In the brewing, pubs and restaurant sector, PizzaExpress rose 11 to 379p following the announcement that US-based Janus Capital Corporation had lifted its stake from just over 12 per cent to 15.54 per cent.

Full-year results in line with expectations took Scottish & Newcastle up 4 to 663p, with Whitbread rising 8 to 719p on its back.

Vodafone's subscriber figures were given a qualified thumbs up by most analysts and the mobile phone group's shares added 3 to 242½p in above average trade of 7.9m.

New subscriber growth in the UK for the three months ending in June fell marginally short of City expectations, but the international side continued to make rapid progress.

Security systems group ADT jumped 395 to a 52-week high of 1550p following news of the agreed takeover from Republic Industries, of the US.

MARKET REPORTERS:
Peter John, Lisa Wood,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Jul 1	Jun 28	Jun 27	Jun 26	Jun 25	Yr ago	*High	*Low
Ordinary Share	2736.8	2729.7	2714.1	2720.7	2714.1	2492.5	2885.2	2606.7
Ord. div. yield	4.08	4.09	4.11	4.10	4.12	4.26	4.12	3.78
P/E ratio net	16.16	16.12	16.04	16.07	16.02	15.62	17.25	15.96
P/E ratio nil	16.07	16.03	15.95	15.98	15.93	15.38	17.09	15.76

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2730.3	2730.0	2728.8	2729.2	2731.0	2731.2	2732.5	2733.4	2735.0	2737.1	2727.3

	Jul 1	Jun 28	Jun 27	Jun 26	Jun 25	Yr ago
SEAQ bargains	29,387	24,518	26,750	26,787	29,158	16,544
Equity turnover (£m)†	-	1792.7	1977.1	1662.0	1844.8	1069.2
Equity bargains†	-	29,799	31,742	32,758	34,421	25,491
Shares traded (ml)†	-	610.5	648.1	630.9	711.1	492.7

†Excluding intra-market business and overseas turnover.

	Jul 1	Jun 28	Jun 27	Jun 26	Jun 25	Yr ago	*High	*Low
FT-SE AIM	1079.90	1079.80	1077.10	1081.40	1082.90	-	1140.40	985.70

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	581	Total Highs	55	Total contracts	32,997
Total Falls	686	Total Lows	43	Calls	14,573
Same	1,506			Puts	18,424

July 1 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3704.0	3720.0	+21.0	3725.0	3698.0	8361	59178
Dec	3741.0	3741.0	+20.0	3741.0	3741.0	70	1145

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	4364.0	+4.0	-	-	0	3740

■ FT-SE 100 INDEX OPTION (LIFFE) (*3724) £10 per full index point

	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P
Jul	174½	3½	127½	6½	88	12½	48	28	21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	178½	13½	137	21½	99½	34	68½	53	43	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	195½	27	158	39	123½	54	92½	72½	67	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	212½	40	174	51½	142	69½	110	88½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†			213	78½			169½	115			[illegible]	[illegible]			[illegible]	[illegible]

Calls 2,266 Puts 2,842

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P
Jul	197½	2	149½	4	104	8½	64	18	32½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	189½	10	156½	16½	117½	20½	82½	41½	54½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	214	21½	174½	31½	138	44	104½	60½	75½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	269	59			201	89			142½	[illegible]			[illegible]	[illegible]		
Mar†	308½	89½			245½	121			189	[illegible]			[illegible]	[illegible]		

Calls 2,915 Puts 5,789 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	3.70	55	43	Biocompatibles W	47		-	-	-	-
-	F.P.	-	11	9	Carlisle Wts	9		-	-	-	-
-	F.P.	109.1	221	208	City Technology	218		-	-	-	-
-	F.P.	42.4	138	111	†Fibernet Group	114	+3	-	-	-	-
-	F.P.	16,859	237¾	234½	Elect Data Sys	£234½	-½	-	-	-	-
60	F.P.	5.15	65	63	†Fieldens	63		-	-	-	-
-	F.P.	24.8	20	17	†Gold Mn Sardinia	19	+1	-	-	-	-
-	F.P.	4.82	11	8	†Gold Sard Wrts	9		-	-	-	-
-	F.P.	40.5	297	265	[illegible]	266xd	+½	20.8	-	0.3	-
-	F.P.	5.16	260	240	†ES Warrants	[illegible]					
-	F.P.	14.4	116	106	†Independent Engy	[illegible]					
-	F.P.	18.6	85	80	†Intelligent Envs	[illegible]					
175	F.P.	-	193	172	Jarvis Hotels	[illegible]					
-	F.P.	32.5	133	123	Lands Improvement	[illegible]					
-	F.P.	2.81	128	110	†Matrix Healthcare	[illegible]					
172	F.P.	407.4	227	172	Pace Micro Tech	[illegible]					
70	F.P.	16.5	76	71	†SEA Multimedia	[illegible]					
140	F.P.	20.3	167	164	†Sinclair M'trons	[illegible]					
80	F.P.	5.82	90	88	†Solid State Sppl	[illegible]					
225	F.P.	32.6	250	225	†Staffware	[illegible]					
118	F.P.	19.4	138	108	†Theo Fennell	[illegible]					
174	F.P.	17.3	178	164	Treats Group	[illegible]					
84	F.P.	3.84	95	91	†Whitecroft	[illegible]					
-	F.P.	24.8	163	155	†Whittard of Chls	[illegible]					

† Alternative Investment Market. For a full explanation of all other symbols please refer to the London Share Service notes.

FT GOLD MINES INDEX

	Jun 28	% chg on day	Jun 27	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2016.88	-0.6	2028.73	1898.19	1.84	-	2820.73	1722.80
■ Regional Indices								
Africa (13)	3076.19	-2.3	2740.48	2868.00	2.72	38.31	[illegible]	2272.74
Australasia (6)	2418.81	+0.1	2416.29	2354.56	2.70	28.44	2927.34	2142.78
North America (12)	1773.86	+0.1	1772.85	1896.93	0.76	63.06	2186.38	1498.94

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FT - SE Actuaries Share Indices — The UK Series

	Jul 1	Day's chge%	Jun 28	Jun 27	Jun 26	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3725.6	+0.4	3711.0	3678.8	3695.5	3323.7	4.07	2.14	14.37	90.61	1525.66
FT-SE Mid 250	4370.4	+0.4	4353.2	4340.9	4365.3	3599.8	3.42	1.72	21.28	110.80	1762.54
FT-SE Mid 250 ex Inv Trusts	4409.8	+0.4	4391.7	4379.7	4403.4	3606.4	3.50	1.77	20.22	116.24	1781.51
FT-SE-A 350	1878.2	+0.4	1870.9	1857.1	1866.0	1646.7	3.98	2.06	15.48	46.11	1573.11
FT-SE-A 350 Higher Yield	1795.6	+0.2	1791.9	1779.1	1786.1	1650.5	5.27	1.82	12.35	54.46	1257.56
FT-SE-A 350 Lower Yield	1968.1	+0.6	1957.0	1942.1	1950.9	1644.3	2.71	2.30	20.09	38.09	1385.85
FT-SE SmallCap	2189.64	-0.1	2190.96	2193.97	2209.06	1835.27	2.96	1.76	23.89	37.42	1801.36
FT-SE SmallCap ex Inv Trusts	2189.92	[illegible]	2190.53	2194.71	2209.70	1813.18	3.15	1.86	21.41	36.48	1813.19
FT-SE-A ALL-SHARE	1862.96	+0.4	1856.33	1843.91	1856.24	1627.28	3.85	2.04	15.93	44.61	1584.55

FT-SE Actuaries All-Share

	Jul 1	Day's chge%	Jun 28	Jun 27	Jun 26	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3499.53	+0.4	3486.33	3486.09	3479.57	2837.48	3.65	1.83	17.84	79.26	1507.80
12 Extractive Industries(6)	[illegible]	+1.3	[illegible]	[illegible]	4270.95	3834.23	3.74	2.50	13.38	109.19	1253.73
15 Oil, Integrated(3)	3556.46	+0.2	3547.60	3521.51	3531.24	2825.68	4.02	1.72	18.02	81.84	1571.57
16 Oil Exploration & Prod(15)	2482.01	[illegible]	2483.14	2486.06	2494.58	2041.49	2.12	1.82	36.47	34.94	1494.67
20 GEN INDUSTRIALS(276)	2021.88	+0.3	2015.89	2014.67	2019.52	1913.39	4.25	1.89	15.58	45.71	1109.62
21 Building & Construction(34)	1197.38	+1.4	1180.40	1183.50	1187.86	934.39	3.44	1.68	21.65	21.62	1005.04
22 Building Matls & Merchs(29)	1878.58	+0.7	1862.79	1857.06	1870.05	1722.36	4.06	1.69	18.28	43.62	952.81
23 Chemicals(25)	2418.51	+0.1	2415.40	2417.70	2416.51	2381.25	4.12	1.96	15.45	59.45	1153.04
24 Diversified Industrials(18)	1581.52	-0.8	1594.56	1590.47	1575.68	1792.87	6.55	1.69	11.26	55.38	892.30
25 Electronic & Elect Equip(37)	2283.63	+1.4	2253.20	2284.11	2271.29	1874.24	3.25	1.69	22.83	17.87	1180.40
26 Engineering(71)	2436.53	+0.3	2429.78	2427.97	2448.60	1986.81	3.28	2.49	15.32	47.72	1487.45
27 Engineering, Vehicles(14)	3010.68	+0.5	2995.40	3010.85	3020.77	2301.65	3.49	1.98	18.13	54.61	1584.03
28 Paper, Pckg & Printing(28)	2577.25	+0.2	2571.21	2558.31	2574.05	3020.46	3.97	1.98	15.84	58.05	1080.12
29 Textiles & Apparel(19)	1368.62	+0.2	1366.80	1358.53	1365.87	1583.66	5.17	1.56	15.36	41.87	844.68
30 CONSUMER GOODS(92)	3573.57	+0.3	3562.02	3524.63	3538.92	3200.44	3.92	1.87	17.08	81.57	1327.38
32 Alcoholic Beverages(8)	2754.09	+0.4	2744.21	2707.20	2714.49	2759.96	4.54	1.62	17.02	71.90	999.71
33 Food Producers(24)	[illegible]	[illegible]	2507.78	2500.86	2514.04	2470.96	4.15	1.87	16.10	65.16	1142.20
34 Household Goods(15)	2609.65	+0.3	2601.43	2593.56	2628.83	2569.12	3.81	2.14	15.29	56.48	1001.41
36 Health Care(20)	2109.34	[illegible]	2109.14	2080.82	2092.86	1780.25	2.56	1.84	26.56	34.90	1288.52
37 Pharmaceuticals(13)	5183.30	+0.5	5158.68	5100.89	5109.97	4165.19	3.26	1.87	20.55	91.18	1763.98
38 Tobacco(1)	4255.62	+0.3	4243.91	4150.73	4210.03	4153.83	6.97	2.12	9.87	156.18	1069.23
40 SERVICES(254)	2532.57	+0.4	2522.71	2510.13	2521.72	2023.70	2.82	2.01	22.06	52.31	1326.02
41 Distributors(31)	2908.37	+0.4	2897.04	2899.97	2891.32	2541.32	2.97	1.74	24.24	50.50	1077.87
42 Leisure & Hotels(24)	3216.13	+0.2	3209.41	3194.57	3255.21	2310.26	2.75	1.89	23.99	152.38	1737.70
43 Media(46)	4204.93	+0.2	4196.70	4167.61	4193.32	3085.82	2.16	1.88	30.68	54.14	1526.68
44 Retailers, Food(14)	2016.25	+0.6	2003.84	1990.16	2003.23	2034.45	3.81	2.30	14.28	48.71	1293.84
45 Retailers, General(44)	2101.53	+0.7	2087.43	2079.40	2074.52	1619.47	2.97	2.16	19.46	45.51	1211.45
47 Breweries, Pubs & Rest.(24)	3173.43	+0.5	3158.74	3127.49	3148.23	2452.10	3.23	2.12	18.22	50.78	1530.14
48 Support Services(49)	2446.38	+0.6	2431.70	2424.98	2428.26	1614.29	1.90	2.37	27.77	30.30	1560.13
49 Transport(22)	2355.00	-0.2	2360.59	2358.27	2370.66	2230.40	3.45	1.47	24.67	54.52	989.45
60 UTILITIES(33)	2297.01	-0.1	2298.97	2281.67	2298.93	2356.76	5.57	2.00	11.20	79.87	968.00
62 Electricity(11)	2547.06	+0.3	2540.10	2590.72	2598.70	2234.54	6.39	2.46	7.97	191.95	1252.13
64 Gas Distribution(2)	1214.68	+0.3	1211.43	1195.43	1212.41	1810.63	9.87	1.36	9.33	66.67	637.06
66 Telecommunications(8)	1939.77	-0.2	1938.28	1915.85	1947.12	2084.72	4.18	1.79	16.70	12.56	890.71
68 Water(12)	2145.55	-0.4	2153.63	2148.85	2129.15	1876.34	6.16	2.34	8.69	78.02	1204.14
69 NON-FINANCIALS(689)	1985.20	+0.3	1979.41	1969.38	1976.93	1752.85	3.85	1.93	16.88	46.90	1515.17
70 FINANCIALS(105)	2861.82	+0.7	2842.16	2805.54	2827.87	2371.71	4.21	2.64	11.27	78.85	1242.01
71 Banks, Retail(8)	3958.84	+0.9	3924.19	3854.64	3888.59	3189.50	3.93	2.89	11.00	110.04	1304.04
72 Banks, Merchant(6)	3846.69	+0.3	3834.78	3622.58	3640.54	3273.75	2.71	2.61	17.69	55.36	1161.23
73 Insurance(23)	1441.41	+0.4	1434.96	1416.79	1428.68	1274.95	5.74	3.18	6.84	48.21	1092.93
74 Life Assurance(6)	3308.66	+0.2	3300.75	3285.50	3328.42	2694.73	4.52	2.24	12.36	100.72	1387.01
77 Other Financial(21)	2623.13	-0.2	2628.21	2624.99	2640.22	2006.36	3.99	1.81	17.33	62.05	1505.93
79 Property(41)	1522.60	+0.8	1509.80	1504.98	1505.81	1433.03	4.18	1.25	23.83	35.64	945.38
80 INVESTMENT TRUSTS(126)	3136.30	+0.3	3128.24	3119.57	3143.01	2763.95	2.24	1.10	50.52	42.88	1100.17
89 FT-SE-A ALL-SHARE(900)	1862.96	+0.4	1856.33	1843.91	1853.24	1627.28	3.85	2.04	15.93	44.61	1584.55
FT-SE-A Fledgling	1245.18	-0.1	1246.26	1249.92	1260.78	1000.78	2.80	2.49	17.98	17.89	1305.51
FT-SE-A Fledgling ex Inv Trusts	1256.70	-0.1	1258.20	1262.88	1275.40	992.81	3.01	2.70	15.36	19.21	1318.16

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3710.4	3708.7	3709.9	3713.1	3714.8	3715.9	3719.4	3721.5	3724.4	3726.6	3706.2
FT-SE Mid 250	4350.9	4354.5	4355.4	4357.9	4358.0	4359.3	4360.8	4364.8	4369.8	4370.6	4350.9
FT-SE-A 350	1870.4	1870.1	1870.7	1872.1	1872.8	1873.4	1874.9	1876.1	1877.7	1878.3	1869.9

Time of FT-SE 100 Day's high: 4:29 PM Day's low: 9:11 AM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 2954.2 (23/01/96).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1170.3	1177.0	1178.8	1180.3	1180.3	1180.3	1183.0	1185.3	1189.6	1189.5	1163.5	+26.0
Pharmaceuticls	5090.1	5084.3	5081.4	5089.2	5094.4	5095.4	5102.7	5092.1	5106.1	5113.9	5090.0	+23.9
Water	2132.2	2132.6	2132.6	2132.2	2130.9	2131.2	2131.9	2131.9	2135.3	2132.8	2141.0	-8.2
Banks, Retail	3971.5	3971.0	3973.5	3975.2	3984.3	3986.4	3989.9	3995.2	4006.6	4010.4	3974.3	+36.1

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.
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TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All stocks are in ordinary shares. Source: FT Extel.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 1 / Sch)

BELGIUM/LUXEMBOURG (Jul 1 / Frs.)

CZECH REP (Jul 1 / Korunas)

DENMARK (Jul 1 / Kr)

FINLAND (Jul 1 / Mkka)

FRANCE (Jul 1 / Frs.)

GERMANY (Jul 1 / Dm.)

GREECE (Jul 1 / Drachma)

ITALY (Jul 1 / Lire)

NETHERLANDS (Jul 1 / Fls.)

NORWAY (Jul 1 / Krone)

POLAND (Jul 1 / Zloty)

PORTUGAL (Jul 1 / Escudo)

SPAIN (Jul 1 / Pts.)

SWEDEN (Jul 1 / Kronor)

SWITZERLAND (Jul 1 / Frs.)

TURKEY (Jul 1 / TK Lira)

PACIFIC

JAPAN (Jul 1 / Yen)

AUSTRALIA (Jul 1 / Aus$)

HONG KONG (Jul 1 / H.K.$)

INDONESIA (Jul 1 / Rupiah)

MALAYSIA (Jul 1 / MYR)

NEW ZEALAND (Jul 1 / NZ $)

SINGAPORE (Jul 1 / S$)

SOUTH KOREA (Jul 1 / Won)

TAIWAN (Jun 29 / TW $)

THAILAND (Jun 28 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jun 28 / Can $)
4 pm close

MONTREAL (Jun 28 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Jul 1 / Rand)

INDICES

	Jul 1	Jun 28	Jun 27	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	19440.08	19850.96	[illegible]	20/5	[illegible]	19/3
Australia							
All Ordinaries(1/1/80)	2245.1	2242.1	2241.5	[illegible]	20/4	2107.40	11/3
All Mining(1/1/80)	1018.9	1025.3	1023.2	1118.40	8/5	[illegible]	16/1
Austria							
Credit Aktien(30/12/84)	371.00	374.44	374.55	[illegible]	31/5	[illegible]	2/1
Traded Index(2/1/91)	1075.77	1080.81	1082.57	1142.81	28/5	[illegible]	2/1
Belgium							
BEL20(1/1/91)	1757.82	1742.94	1730.17	1773.38	28/5	[illegible]	2/1
Brazil							
Bovespa(29/12/83)	(u)	60439.0	61815.0	62272.00	28/6	[illegible]	2/1
Canada							
Metals & Minls(1975)	(u)	5118.05	5070.80	5624.80	8/5	[illegible]	19/1
Composite(1975)	(u)	5044.10	5011.80	[illegible]	31/5	[illegible]	15/1
Portfolio(4/1/83)	(u)	2480.81	2484.19	[illegible]	27/6	[illegible]	12/1
Chile							
IPSA Gen(31/12/80)	(u)	5580.47	5528.55	5894.38	8/1	[illegible]	8/4
Denmark							
CopenhagenSE(3/1/83)	410.84	408.28	407.60	[illegible]	1/7	[illegible]	2/1
Finland							
HEX General(28/12/90)	2025.98	2009.78	1990.14	2076.42	31/5	[illegible]	16/1
France							
SBF 250(31/12/90)	1445.82	1448.40	1441.20	1457.55	6/6	1288.10	2/1
CAC 40(31/12/87)	2118.75	2123.70	2112.85	2148.70	30/4	1887.35	11/1
Germany							
FAZ Aktien(31/12/58)	907.02	907.04	908.77	911.38	28/5	808.38	2/1
Commerzbank(1/12/53)	2814.9	2813.5	2817.8	2822.40	25/6	2370.28	2/1
DAX(30/12/87)	2564.00	2581.39	2551.62	2573.00	28/6	2284.30	2/1
Greece							
Athens SE(31/12/80)	922.74	910.12	911.50	1017.96	4/3	[illegible]	24/8
Hong Kong							
Hang Seng(31/7/64)	11002.61	11020.90	11002.45	11594.99	16/2	[illegible]	2/1
India							
BSE Sens(1979)	3764.38	3812.82	3840.11	[illegible]	18/6	[illegible]	25/1
Indonesia							
Jakarta Comp(10/8/82)	590.35	594.26	592.08	630.21	24/6	[illegible]	2/1

US INDICES

INDEX FUTURES

■ TOKYO - MOST ACTIVE STOCKS: Monday, July 1, 1996

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Juki Corp	5.4m	624	+24	Nippon Stl Corp	3.1m	372	-4
Sumitomo Hvy Ind	5.1m	490	+11	Nippon Hsg Loan	2.8m	1	
Mitsubishi Hvy	3.8m	953		Clarion	2.6m	650	+5
Nippon Denko	3.5m	579	-8	Mitsubishi Chem	2.5m	495	-11
Ishi-Har Hvy Ind	3.2m	540	+5	Kanematsu Corp	2.3m	775	+7

FT FREE ANNUAL REPORTS SERVICE

4 pm close July 1

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¼	19⅛	AAR	0.48	2.4	21	163	20⅛	19⅞	19⅞	-½
46⅛	36⅛	AMP	1.00	2.4	20	3809	41¾	40¼	41⅜	+1¼
97½	68	AMR			22	3627	91⅛	90	91⅛	+⅛
50½	37⅜	ASA	1.80	4.6	26	608	39¾	39⅛	39½	+½
44¾	38⅛	AbbtL	0.96	2.2	19	5054	43⅞	43⅛	43½	
17¼	13¼	Abitibi Pr	0.40	2.9	7	1247	13⅝	13½	13⅝	
39⅜	27	ABM Ind	0.70	1.8	20	47	u39⅜	39¼	39⅜	+¼
18¼	13⅞	Acptncein			45	145	17⅜	17⅛	17⅜	+¼
50⅜	37¾	ACE Ltd	0.56	1.2	11	1364	47	46⅞	47	
9⅞	9⅛	ACM Gvt In	0.90	9.1	8	91	u9⅞	9¾	9⅞	
7⅞	6⅝	ACM GvOpp	0.57	8.3		142	7	6⅞	6⅞	
7¼	6	ACM Gvt Sp	0.66	10.2		339	6½	6⅜	6½	+⅛
9⅛	8¼	ACM Gvt Se	0.90	10.4		480	8⅝	8½	8⅝	+⅛
9½	8½	ACM Msn	0.90	10.3		595	8¾	8⅝	8¾	+⅛
30¾	16½	AcmeClv	0.52	1.7	7	34	30	29⅞	30	
13⅞	6⅛	Acme Elect			45	273	8⅜	7½	8¼	+⅝
33¾	27¾	Acordia	0.80	2.4	30	14	33⅝	33½	33½	-⅛
21⅜	12	Acuson			70	615	16⅜	15½	15½	-½
19½	18⅛	Adams Expr	1.66	8.6	0	419	19¼	19	19¼	+⅛
21¼	12⅞	AdvMic			5	3985	14⅛	13⅝	14	+⅜
11⅛	8½	Advest Grp	0.16	1.5	7	53	10⅜	10¼	10⅜	+¼
26⅛	9⅛	Advo Inc	0.10	1.0	56	315	10¼	10⅛	10¼	-⅛
50⅜	41⅛	Aegon	1.19	2.6	14	137	46¼	46⅛	46¼	+⅛
6¾	3½	Aerfix			3	305	6	5⅞	5⅞	-⅛
78¼	66⅛	AetnaL	2.76	3.7	19	8800	73⅞	71⅝	73⅝	+2⅛
[illegible]	[illegible]	[illegible]	0.40	1.3	12	1385	30⅜	29⅞	30⅜	+½
20⅛	17⅛	AGL Res	1.06	5.7	16	772	18⅞	18½	18¾	-⅛
28	21¼	Ahmnsn	0.88	3.2	7	20939	u28	26⅞	27⅜	+⅜

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Prices data supplied by Telekurs

FT Free Annual Reports Service

NASDAQ NATIONAL MARKET

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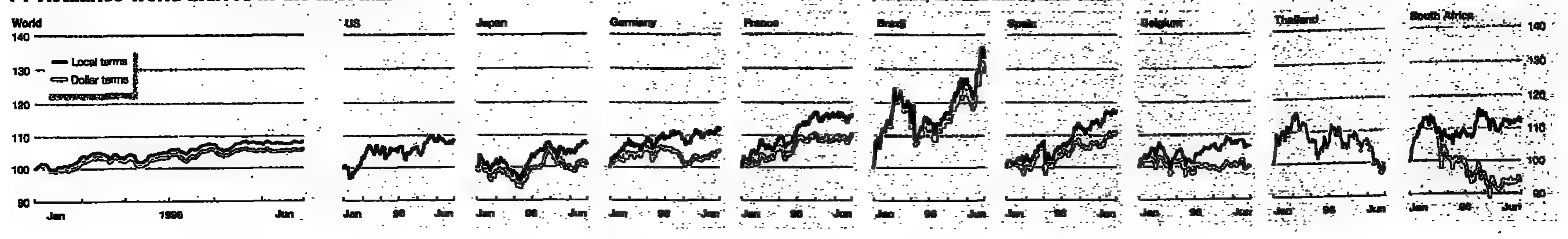
AMEX PRICES

4 pm close July 1

FT-Actuaries World Indices in the first half 1996

Jointly compiled by The Financial Times Ltd, Goldman Sachs & Co and NatWest Securities Ltd in conjunction with the Institute of Actuaries and the Faculty of Actuaries



AMERICA

Dow rises as NAPM report lifts cyclicals

Wall Street

US share prices strengthened at midsession, led by technology shares which continued to bounce back from the weakness seen in the last three weeks of June, *writes Lisa Bransten in New York.*

In early afternoon trading the Nasdaq composite, which is about 40 per cent technology shares, was 8.35 stronger at 1,193.37 and the Pacific Stock Exchange technology index advanced 1.3 per cent.

Rising technology shares included Microsoft, up $1⅝ at $58⅝, Intel, $1 1/16 higher at $74⅞, America Online, which gained $1⅞ at $45⅝, and Netscape, $1¼ stronger at $63¼.

Computer makers were particularly strong, with IBM up $2¼ at $101¾, Compaq $1 ahead at $50¼ and Hewlett-Packard $1⅝ firmer at $101¼.

Although most of Wall Street was anxiously awaiting the conclusion of the Federal Reserve's Open Market Committee meeting tomorrow, few expected the policy-making body to raise interest rates.

A report of strength in the manufacturing sector from the National Association of Purchasing Management helped to boost cyclical shares and led the Dow Jones Industrial Average to outperform other indices.

At 1pm the Dow was 25.85 stronger at 5,680.48, the Standard & Poor's 500 rose 2.71 to 673.34 and the American Stock Exchange composite added 3.15 at 579.94. NYSE volume was 192m shares.

Rising cyclical shares in the Dow included Boeing, up $1⅝ at $88⅜, General Electric, $1⅛ stronger at $87⅞, and United Technologies, which climbed $⅝ to $115⅜.

Acquisition news moved several shares. ADT added $5 or 27 per cent at $23⅞ after signing an agreement to be acquired by Republic Industries for stock valued at about $5bn, or $26 a share. Republic Industries fell $1¼ to $28.

Brooktree jumped $3⅞ or 37 per cent to $14⅝ after agreeing to be purchased by Rockwell International for $275m. Rockwell slipped $⅝ at $56⅝.

● Toronto was closed.

Rebels worry Mexico

Mexico City was pressured by weekend news that a new rebel group had taken up arms. The self-styled Popular Revolutionary Army unveiled itself in the poor state of Guerrero on Friday, just as Mexico's more famous Zapatista rebels in Chiapas were talking peace with the government. The IPC index fell 25.91 to 3,184.92.

SANTIAGO, contrary to expectations, was firmer at midsession after Friday's surprise resignation of Mr Roberto Zahler, the central bank president. The IPSA index edged 0.73 ahead to 102.57.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1996	% change sterling † Start of 1996	% change in US $ † Start of 1996
Austria	-1.66	-5.57	+3.43	+12.10	+5.30	+5.36
Belgium	+0.53	-0.87	+18.16	+6.46	-0.07	+0.01
Denmark	+0.50	+2.15	+18.40	+11.09	+4.88	+4.96
Finland	-0.51	-5.64	-9.89	+9.72	+2.47	+2.54
France	+1.95	+0.50	+15.61	+16.06	+10.17	+10.25
Germany	+1.26	+1.85	+19.79	+11.96	+5.18	+5.27
Ireland	-1.81	+0.76	+25.30	+12.68	+12.21	+12.30
Italy	-1.68	-2.23	+4.05	+7.37	+11.04	+11.13
Netherlands	+1.16	-0.61	+30.75	+18.22	+9.06	+9.15
Norway	-1.69	-1.06	+13.94	+11.45	+8.30	+8.39
Spain	+0.22	+3.69	+31.63	+17.28	+10.87	+10.95
Sweden	-0.24	-0.11	+22.46	+14.64	+14.41	+14.50
Switzerland	+1.37	+4.68	+31.11	+12.52	+3.35	+3.44
UK	-0.45	-1.29	+12.96	+1.17	+1.17	+1.24
EUROPE	+0.36	+0.21	+17.56	+8.77	+6.22	+6.30
Australia	-0.71	-1.43	+9.56	+0.18	+5.92	+6.00
Hong Kong	+1.57	-1.93	+20.69	+11.47	+11.26	+11.35
Japan	+0.05	+2.11	+41.13	+7.51	+1.03	+1.11
Malaysia	-0.66	+0.26	+8.89	+13.33	+15.23	+15.32
New Zealand	-0.21	+1.74	-0.53	-4.03	+0.46	+0.54
Singapore	-1.36	+0.04	+10.99	+2.18	+2.32	+2.40
Canada	-0.16	-3.38	+10.64	+7.73	+7.50	+7.59
USA	+0.50	+0.06	+22.50	+8.55	+8.46	+8.55
Mexico	+2.71	+0.22	+46.73	+17.14	+18.98	+19.07
South Africa	-0.34	-0.76	+24.62	+11.72	-6.03	-5.96
WORLD INDEX	+0.34	+0.45	+25.11	+6.39	+5.78	+5.86

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EUROPE

Wall Street uptick helps Frankfurt gain ground

A late morning uptick in the Dow helped FRANKFURT recover from earlier losses, the Dax index closing 3.00 higher at an Ibis-indicated 2,573.44.

Lufthansa, due to produce May earnings data tomorrow, climbed DM5.50, or 2.5 per cent, to DM222. It told the German weekly Der Spiegel that it was back in profits in May after an operating loss of nearly DM50m in the first three months of 1996.

PARIS was less responsive, the CAC-40 index losing 4.95 at 2,118.75. However, the market had time for theme stocks, most spectacularly Dassault Aviation, which jumped by FFr69, or 8.6 per cent, to FFr868 as the market waited for post-bourse confirmation of its merger plan with the state-owned Aerospatiale.

Cap Gemini rose FFr7.50 to FFr207.50 on the news that it would gradually sell its 36 per cent stake in Cisi, the systems integration and outsourcing company 64 per cent controlled by CEA Industrie; CEA fell FFr36 to FFr468.

Carmakers, initially depressed by news of a 32 per cent drop in French new car sales in June, remembered that June 1995 sales were inflated by the Balladur car buying premium. Renault closed unchanged at FFr132.90, after FFr129.20, and Peugeot FFr7 lower at FFr682, after FFr670.

ZURICH saw a further advance in CS Holding, up SFr1 to SFr120, on continuing speculation about a possible change in the company's structure or a potential divestment of its industrial subsidiaries. The bank said after the market closed that it would hold an "important" news conference this morning.

The broad market edged lower and the SMI index lost 4.7 to 3,728.2.

Von Roll forged ahead SFr2.75 to SFr28.75 after selling its loss making Swiss steel-making subsidiary to von Moos, a smaller steel group. Von Moos rose SFr8 to SFr100.

Danzas, the freight forwarding company, picked up SFr30 to SFr1,340 as the British investor Mr Nicholas Berry denied rumours that he was selling any part of his 8 per cent stake. Mr Berry failed last month in an attempt to win a seat on the management board.

Ares-Serono fell SFr40 to SFr1,070 after the company said that it would have to pay nearly $20m to settle a class action suit related to its take-over of InterPharm.

MILAN featured a 3.5 per cent fall in Montedison on speculation that a planned capital writedown, announced in April, was about to be implimented imminently. The shares fell L31.3 to L860.7.

The Comit index shed 1.16 to 656.67. Generali, the insurer, gave up L464 to L35,034; a weekend announcement revealed higher premium income so far this year but said that no decision had been made over its 11 per cent stake in the French insurer, Axa.

Among other blue chips, Fiat fell L105 to L5,063 and Pirelli gave up L46 to L2,538, with some investors said to be positioning themselves for the placing of the television and advertising group, Mediaset. Shares in the company, which will become Italy's eigth largest listed group, are due to start trading on July 15.

Against the trend, the oil and chemical giant, Eni picked up L151 to L7,797.

AMSTERDAM, seeing modest early Wall street gains, closed with the AEX index down 0.30 at 560.03.

The apparent reconciliation between KLM and its US partner, Northwest, left the Dutch flag airline up 60 cents at Fl 55.20, after Fl 56.90, although dealers said that lack of liquidity contributed to the earlier peak; and a Kempen & Co outperformer rating for LCI left the computer group up 60 cents, or 5.6 per cent, at Fl 11.40.

BRUSSELS featured a BFr625 gain to BFr25,875 in Bekhaert after the steel wire and cord maker said that it would raise BFr5bn by the sale of 10.1m shares in the Japanese tyre-maker, Bridgestone, and a BFr110 rise to BFr2,500 in Lonrho Belgium, 82.5 per cent-owned by Lonrho of the UK, which said last Friday that it planned to split its hotels, trading and mining businesses into separate companies by the end of this year. The Bel-20 index rose 14.68 to 1,757.62.

ATHENS turned back from early highs, but still closed 1.4 per cent better in response to the election of the prime minister, Mr Costas Simitis, as president of the socialist party (Pasok) congress on Sunday, consolidating his grip on the party machine.

The Athens general index finished 13.62 higher at 922.74 as turnover rose to Dr9.9bn.

VIENNA gave up 1.4 per cent during a session that lacked incentives. The ATX index lost 14.84 at 1,075.77, led down by Lenzing, the fibre maker, which dropped Sch34 to Sch640.

Written and edited by William Cochrane and Michael Morgan

FT-SE Actuaries Share Indices

Jul 1 — THE EUROPEAN SERIES Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1698.43	1700.85	1700.66	1700.87	1700.72	1701.71	1701.21	1701.31
FT-SE Eurotrack 200	1726.44	1729.94	1729.40	1730.84	1730.73	1731.76	1731.91	1731.91

	Jun 28	Jun 27	Jun 26	Jun 25	Jun 24
FT-SE Eurotrack 100	1698.43	1693.02	1698.10	1695.42	1690.97
FT-SE Eurotrack 200	1726.44	1718.58	1723.45	1721.85	1722.72

Base value 1000 (26/10/90) Highday: 100 - 1702.12; 200 - 1734.21 Lowday: 100 - 1698.65 200 - 1727.58. † Partial.

ASIA PACIFIC

Threat of crackdown leaves Shenzhen Bs down 9.8%

China's hard currency B shares plunged after the market watchdog reaffirmed its determination to stop Chinese citizens from trading in the issues, which are targeted at foreign investors.

SHENZHEN's B index dropped 8.36, or 9.8 per cent, to 77.01. The shares had rocketed in recent weeks on domestic demand, which was said to have accounted for about 70 per cent of daily turnover, falling subsequently on the threat of reimposed controls.

The A index of shares for domestic investors fell 5.2 per cent on worries over the accelerated pace of new share offers and listings.

In SHANGHAI, the B index lost 1.984, or 3.9 per cent, to 49.550, while the A shares fell 5.4 per cent on profit-taking.

Tokyo

Activity receded, and equities fell, due to uncertainty over the course of domestic and US interest rates, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 average fell 75.26 to 22,455.49 after moving between 22,416.00 and 22,600.08. Volume totalled 274m shares, falling below 300m for the first time since June 10. Overseas investors took small lot profits, while domestic institutions remained on the sidelines.

The Topix index of all first section stocks dipped 4.24 to 1,708.21 and the Nikkei 300 softened 0.51 to 317.02. Declining issues outnumbered advances by 643 to 378, with 190 stocks unchanged.

In London the ISE/Nikkei 50 index put on 1.51 at 1,522.87.

Investors grew nervous over the Bank of Japan's neutral stance on the short term money markets, following a rally in the bond market last week.

Although few investors expected an imminent rise in interest rates, this week's BoJ branch managers' meeting and US FOMC meeting were giving some market participants an excuse to refrain from activity, said traders.

Carmakers saw more profit-taking, Toyota Motor losing Y60 to Y2,680 and Nissan Motor Y12 to Y961. High-technology stocks were also lower, with Toshiba off Y14 at Y766 and NEC down Y20 to Y2,290. Sony, however, rose Y20 to Y7,230 and Fuji Photo Film, the photo film manufacturer, firmed Y50 to Y3,510 on buying by European institutions.

Steels were weaker on profit-taking by foreigners, Nippon Steel losing Y4 at Y372. However, shipbuilders were higher on active buying, Sumitomo Heavy Industries putting on Y11 at Y490 and Kawasaki Heavy Industries Y5 at Y560.

Speculative stocks were actively traded. Juki, an industrial sewing machine maker, was the most active issue of the day, rising Y24 to Y624. Clarion, the car audio equipment company, moved forward Y5 to Y880.

In Osaka, the OSE average slipped 71.76 to 23,729.41 in volume of 25.4m shares.

Roundup

Talk of a joint opposition plan to topple Mrs Benazir Bhutto's government left KARACHI down by a percentage point on Sunday and by another 1.6 per cent yesterday, although Mrs Bhutto's PPP party seemed to be heading for victory in Pakistan-controlled Azad (free) Kashmir. The KSE 100 index fell 26.78 to 1,676.50.

SINGAPORE was dominated by activity in Telecom, a block of 60m shares being traded at S$3.68 as the state investment company Temasek continued to sell part of its stake. SingTel shed 10 cents to S$3.66 and the Straits Times Industrial index lost 4.68 at 2,291.53.

SEOUL rebounded late in the session as speculative bargain hunting for blue chips emerged after news of a narrowing June trade deficit. The composite index gained 16.36 at 838.79 but in thin trade of 14.2m shares, the lowest of the year.

JAKARTA saw Sona Topas leap Rp150 to Rp950, although the duty-free outlet operator denied rumours that one of the country's conglomerates was planning a bid. The JKSE composite index rose 2.02 to 596.28.

● Taipei, Bangkok and Dhaka were closed.

S African industrials pressured

Johannesburg's industrial shares were pressured by Wall Street's weak performance on Friday, and golds were steady in response to a dull bullion price. Analysts said losses were exaggerated by very thin trading volume after two systems failures on the Johannesburg Equities Trading (JET) system delayed the start of trading by about four hours.

The overall index ended off 33.8 at 6,844.9, industrials fell 52.3 to 8,138.5 and golds lost 0.6 at 1,721.1. Anglos slipped R1.50 to R273 and Sasol was off 60 cents at R46.00.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 28 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JUNE 27 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	201.44	-0.3	192.21	139.66	159.41	170.22	-0.1	4.33	202.08	193.77	139.60	159.87	170.36	212.16	168.30	167.00
Austria (25)	183.92	-0.6	175.50	127.52	145.55	145.49	-0.8	1.92	185.07	177.47	127.86	146.42	146.35	198.98	168.11	186.11
Belgium (27)	209.16	0.0	199.58	145.02	165.53	161.60	0.1	4.12	209.12	200.53	144.47	165.45	161.52	215.81	186.08	194.28
Brazil (28)	178.13	-1.7	169.97	123.51	140.97	329.23	-1.6	2.01	181.27	173.82	125.23	143.41	334.76	181.69	123.97	134.75
Canada (98)	159.70	0.5	152.38	110.72	126.38	157.93	0.7	2.41	158.84	152.31	109.74	125.67	156.76	165.12	134.14	142.97
Denmark (30)	303.09	0.4	289.21	210.14	239.86	241.80	0.5	1.90	301.76	289.37	208.48	238.74	240.69	305.17	276.83	276.83
Finland (23)	191.85	0.7	183.06	133.00	151.81	167.05	1.2	2.67	190.45	182.61	131.58	150.66	184.89	278.11	171.73	232.26
France (96)	197.60	0.6	188.74	137.14	156.54	159.74	0.8	3.01	196.59	188.51	135.82	155.53	158.79	198.39	167.70	180.45
Germany (60)	172.32	0.4	164.42	119.47	136.37	136.37	0.5	1.62	171.58	164.55	118.55	135.76	135.76	174.38	155.66	157.72
Hong Kong (59)	431.69	0.2	411.91	299.30	341.63	429.02	0.2	3.32	430.92	413.23	297.71	340.93	428.27	451.19	348.81	367.27
Ireland (16)	286.95	1.3	273.80	198.95	227.08	263.11	0.9	3.39	283.17	271.54	195.63	224.04	260.77	290.82	238.60	263.90
Italy (59)	81.90	0.5	78.15	56.79	64.82	93.77	0.4	2.36	81.54	78.19	56.33	64.51	93.36	84.25	67.22	73.96
Japan (481)	156.65	-0.3	149.48	108.61	123.97	106.61	0.0	0.70	157.19	150.73	108.60	124.36	106.60	164.68	137.75	144.25
Malaysia (107)	559.44	0.2	533.81	387.88	442.73	537.64	0.3	1.67	558.24	535.31	385.67	441.66	536.09	585.09	425.77	525.91
Mexico (18)	1233.34	0.9	1176.84	855.11	976.03	10221.42	0.3	1.30	1221.96	1171.80	844.23	966.78	10190.72	1326.65	781.99	1011.31
Netherland (19)	297.67	0.6	284.03	206.38	235.57	231.91	0.6	3.11	296.01	283.85	204.50	234.19	230.47	299.59	245.79	249.88
New Zealand (15)	80.09	0.5	76.42	55.53	63.38	62.06	0.0	4.37	79.71	76.44	55.07	63.06	62.06	85.49	75.94	78.79
Norway (35)	250.68	0.4	239.20	173.81	198.38	221.05	0.3	2.05	249.74	239.46	172.54	197.68	220.27	258.94	222.24	230.97
Singapore (44)	416.98	0.0	397.88	289.11	329.99	271.23	0.0	1.40	417.12	399.59	288.18	330.01	271.15	465.21	355.81	378.59
South Africa (45)	362.39	-0.8	345.78	251.25	286.78	345.00	-0.9	2.12	365.12	350.13	252.25	288.87	346.23	437.76	339.57	345.54
Spain (37)	183.29	0.6	174.89	127.08	145.05	178.03	0.7	3.21	182.26	174.77	125.91	144.19	176.79	183.29	145.15	147.11
Sweden (48)	357.35	1.2	340.98	247.76	282.80	351.04	1.3	2.42	353.13	338.63	243.97	279.38	346.64	360.77	266.46	266.46
Switzerland (38)	244.10	0.6	232.91	169.24	193.17	188.42	0.7	1.56	242.59	232.63	167.60	191.93	186.18	252.34	191.34	202.80
Thailand (46)	168.31	1.0	158.65	116.51	131.81	163.95	1.1	2.02	164.65	157.89	113.75	130.27	162.15	186.85	146.74	168.18
United Kingdom (200)	233.41	1.3	222.72	161.83	184.72	222.72	0.8	4.19	230.42	220.96	159.19	182.30	220.96	237.43	210.29	210.29
USA (627)	272.73	0.4	260.23	189.09	215.83	272.73	0.4	2.17	271.66	260.52	187.69	214.94	271.66	276.47	222.24	222.64
Americas (771)	249.05	0.4	237.64	172.68	197.09	209.36	0.4	2.17	248.13	237.94	171.42	196.31	208.60	252.43	203.54	203.91
Europe (713)	211.52	0.6	201.83	146.65	167.39	184.80	0.7	3.06	209.81	201.19	144.95	165.99	183.57	211.58	187.21	187.21
Nordic (136)	304.93	0.9	290.96	211.42	241.32	263.93	1.0	2.39	302.13	289.72	208.73	239.03	261.24	306.61	258.76	258.76
Pacific Basin (831)	169.35	-0.3	161.59	117.42	134.02	119.51	0.0	1.15	169.80	162.82	117.31	134.34	119.46	177.01	148.98	154.32
Euro-Pacific (1544)	186.91	0.2	178.26	129.52	147.84	144.29	0.3	2.05	186.36	178.70	128.75	147.44	143.80	190.07	166.51	167.92
North America (725)	265.75	0.4	253.57	184.25	210.31	265.05	0.4	2.18	264.72	253.84	182.88	209.43	264.01	269.52	217.81	217.71
Europe Ex. UK (513)	194.16	0.6	185.27	134.62	153.65	161.31	0.6	2.45	193.07	185.14	133.39	152.75	160.35	194.16	168.65	170.15
Pacific Ex. Japan (350)	287.99	0.1	274.80	199.67	227.91	248.68	0.1	3.06	287.79	275.97	198.82	227.68	248.58	298.65	243.59	250.46
World Ex. US (1733)	188.01	0.2	179.39	130.35	148.78	148.70	0.3	2.06	187.59	179.88	129.60	148.41	148.24	191.55	167.38	168.87
World Ex. UK (2160)	212.20	0.2	202.48	147.13	167.93	180.32	0.3	1.91	211.78	203.08	146.32	167.56	179.78	213.05	181.85	182.79
World Ex. Japan (1879)	245.99	0.5	234.71	170.54	194.66	232.77	0.4	2.53	244.79	234.74	169.12	193.67	231.76	247.55	209.46	208.48
The World Index (2360)	214.14	0.3	204.33	148.47	169.47	184.40	0.3	2.11	213.52	204.75	147.51	168.93	183.78	214.70	184.49	185.22

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Japanese carmaker's extra model would compete directly with top European sellers

Nissan may boost output in England

By Stefan Wagstyl, Industrial Editor

Nissan Motor, the Japanese carmaker, is considering plans to build a third model in the UK. The move would create hundreds of jobs at the company's factory in Sunderland, north-east England, and in the British parts industry.

The new car would be a small saloon aimed at the biggest sector in the European car market where it would compete head-on with the Ford Escort, the Volkswagen Golf and General Motors' Astra.

The proposed model would greatly expand Nissan's presence in the European market by filling the gap between its Micra minicar and the Primera family saloon.

Nissan said no decision had yet been made on the new car, which would replace the Almera model produced in Japan and shipped to Europe. The company said it was carrying out detailed feasibility studies into the project and would decide on it early next year. The new car could go into production in 2000.

Nissan said the most important consideration was the overall financial position of the group, which has suffered serious losses in recent years. An extra model would be an important addition to the Sunderland plant, which is running well below its capacity of 300,000 cars a year. This year's output is planned to be 215,000 vehicles.

The new model would be unlikely to be viable unless produced in numbers of at least 100,000 a year. This could be accommodated by a switching some output from Sunderland to a factory in Spain.

The group is unlikely to invest in a new production line at Sunderland. But even adapting the two existing lines would require substantial investment. The company is now spending £250m on retooling the Primera line for the launch of a new version this autumn. Reorganising production for a third model would be considerably more expensive.

Nissan said it was too early to say how many jobs might be created at Sunderland, which employs about 4,600 people. But it said that if production rose there would be a need for more staff, even though the plant's productivity was increasing at 10 per cent a year. The new model would also almost certainly create new jobs at Nissan's British suppliers. Component makers have already been contracted for development work, much earlier than for previous Nissan models.

The early involvement of suppliers indicates that Nissan, which started production in the UK 10 years ago this month, is increasingly willing to entrust detailed engineering work to British parts makers.

Stock Exchange seeks to cut costs

By John Gapper, Banking Editor

The London Stock Exchange will try to co-operate with other exchanges to cut the costs of share and derivatives trading, its senior directors said yesterday as they outlined a new strategy for the exchange.

The exchange also confirmed that it intends to cut about 400 jobs over the next two and a half years, bringing costs down to about £120m ($183.6m) a year. This will match its estimated income after losing fees from share settlement.

Mr John Kemp-Welch, the chairman, said the exchange needed to "inject much greater clarity and efficiency into its activities". It would employ a total of 550 staff by the end of 1997, and would reduce the number of management layers.

The strategy review, which was approved by the exchange's board last week, was started after it lost charge of share settlement in the City as a result of severe cost overruns and delays in the now-abandoned Taurus system.

The exchange has also lost two chief executives, Mr Peter Rawlins and Mr Michael Lawrence, within the past two years. It has just announced that Mr Gavin Casey, a director of Merrill Lynch, is to take over the job.

Ms Field Wicker-Miurin, director of strategy and finance, said that the exchange intended to increase co-operation to "make the whole market more efficient".

Ms Wicker-Miurin said that it wanted to retain its position of capturing 90 per cent of global trading in UK equities, and to be the main market for cross-border equities. It also wanted to strengthen its position in gilts and eurobonds.

The exchange produced figures indicating that its operating costs as a percentage of market turnover were relatively low compared with other large exchanges such as the US Nasdaq exchanges and the Tokyo Stock Exchange.

Losses force German PC company to shut 65 stores

By Paul Taylor in London

Escom, the troubled German computer maker and retailer, is to close 65 of its town centre stores in Britain, resulting in 227 redundancies, as part of a restructuring programme aimed at stemming losses.

The company, which will retain 170 sites across Britain, acquired the stores from Rumbelows last year as part of a European expansion programme.

But the personal computer market has since slowed in Germany and the company, which specialises in cut-price multimedia PCs aimed at the home market, has faced growing competition from other more well established suppliers such as Compaq, Dell and International Business Machines.

In March Escom announced much higher than expected full year net losses of DM125m ($81.1m) which it blamed on falling PC sales, stock write-downs and price cuts.

Since then the company has undertaken a DM100m refinancing and Mr Manfred Schmitt, who founded the group, has been replaced by Mr Helmut Jost, a former management board member.

As a first step, Mr Jost sold Amiga Technologies, an ill-fated subsidiary which was developing set-top boxes for interactive television.

At the start of May Escom announced it would stop production at its German headquarters in Heppenheim with the loss of 120 jobs and use other production sites in the Netherlands and the Czech Republic to assemble computers and concentrate on the retail side of its operations.

Escom said that after acquiring the Bumbelows stores in Britain last year, it had reached its critical mass and took the immediate step of disposing of excess stores.

Analysts said that Escom had overreached itself through an aggressive expansion strategy just as prices for PCs were sliding.

The company recently admitted it had to improve the way stock was moved between its three European storage sites in Germany, the Netherlands and Scotland. "We have to see how we can centralise things," it said.

Three shoe factories to close

C & J Clark, the family-owned shoe group, announced the closure of three factories and the loss of 1,400 jobs yesterday in a restructuring exercise to improve efficiency, Jane Martinson writes.

The reorganisation is the largest since the arrival of a new chief executive in January. Mr Tim Parker, brought in from Kenwood Appliances to prepare the company for flotation, said yesterday that the changes were designed to "address the poor performance of our core footwear operations".

UK manufacturing would fall by about 10 per cent from its current 50 per cent of total output by outsourcing deals in countries with lower labour costs, he said. The group wanted to build its worldwide business, he said, and to expand its exports from 20 per cent of sales.

The cost of the redundancies would be "in excess of £10m" ($15.3m) and would affect the company's profits in the current financial year.

Mr Parker wants to refocus on specialist ranges and £2.5m would be spent over the next two years on refurbishing existing factories.

Although part of the rationale of the restructuring is to increase the likelihood of a successful flotation, Mr Parker said yesterday that the group was unlikely to go public for at least two years while it digested the changes.

Open bidding is planned for North Sea fields

By Stefan Wagstyl, Industrial Editor

The government is planning to introduce competitive bidding for offshore oil and gas licences to boost investment in exploration and development.

The proposals, announced yesterday by Mr Tim Eggar, the energy minister, would apply to mature areas in the North Sea.

The plans would exclude frontier areas still in the early stages of development, notably in the Atlantic Ocean to the west of Scotland.

The government believes the traditional UK system of awarding licences on the basis of official assessments of oil companies' development plans works well for large new exploration areas. But officials consider this system may be too slow and cumbersome for encouraging the development of unexplored pockets of existing fields.

"In the mature areas of the North Sea, I propose that we introduce some changes to our traditional system, so as to develop a regime which is more open and better able to respond rapidly to market developments and new ideas," said Mr Eggar, presenting his plans to an industry conference in London yesterday.

The industry reacted cautiously, expressing fears that competitive bids might lead to the government demanding large up-front payments. That has happened in other areas such as the fields in the Gulf of Mexico. The United Kingdom Offshore Operators Association said: "The industry is going to be unhappy if it has to pay for licences. But we recognise the present system can be improved."

Mr Eggar is planning to consult the industry about his proposals. He hopes the new system might be applied to between 20 and 30 North Sea blocks starting with the next round of North Sea licences, to be awarded late next year.

As well as introducing competitive bidding, Mr Eggar wants the new-style licences awarded for shorter periods to discourage companies from sitting on blocks without pursuing development plans. Yesterday he proposed periods of between three and six years, instead of the current minimum time of six years which is often followed by extensions of 12 years.

UK NEWS DIGEST

Ministers face roasting by PM

Mr John Major, the prime minister, will throw his weight behind efforts to revive the flagging private finance initiative(PFI) tomorrow by warning ministers they are not doing enough to promote the scheme. Ministers are being called to Downing Street to explain the lack of progress by some government departments in attracting private finance to public sector projects.

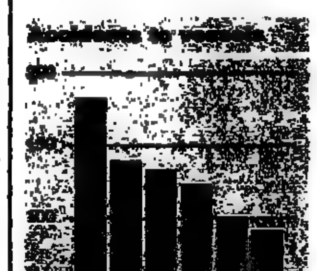
Mr Stephen Dorrell, the health secretary, is likely to face stiff questioning over the slow start made by his department. Progress in defence and in local government has also been disappointing. Companies blame the delays mainly on the bureaucratic approach adopted by many departments. The prime minister's move comes amid calls for responsibility for the PFI to be switched from the Treasury to Mr Michael Heseltine, deputy prime minister. *David Wighton, Westminster*

Electronic marketplace planned

Three British media executives are investing up to £7m ($10.7m) of their own money in Channel 11, which will provide a range of new specialist Internet services using a television format for ease of access. Channel 11's first four services launched last night will offer specialist information on the food and drinks industry. The service will target businesses and consumers. Mr Tim Carron-Brown, the chief executive and one of the investors, said the aim was to create an electronic marketplace where sellers of goods and services to the food and drinks sector could find buyers.

Raymond Snoddy in London

Shipping deal 'next year'



An international agreement on co-operation in maritime accident investigations should be in place by the end of next year, Captain Peter Marriott, the UK chief inspector of marine accidents, says in his annual report. Unlike the civil aviation industry, shipping has no binding international code although the investigation of accidents and losses frequently requires cross-border co-operation. The International Maritime Organisation, the UN agency responsible for shipping safety, is preparing an agreement which will supersede existing informal contacts. The safety of the UK merchant and fishing fleet continued to improve in most areas in 1995.

Charles Batchelor, Transport Correspondent

Rail dispute deepens

A total shutdown of the London Underground network this summer in a series of one-day strikes grew more likely last night. Leaders of the RMT transport union said they were holding an industrial action ballot of their drivers in pursuit of a one-hour cut in their 38.5-hour working week. If the drivers voted for strike action they would be expected to hold stoppages on the same days as the majority of Underground drivers, who belong to the Aslef union. Those drivers intend to hold the second of their planned series of four 24-hour strikes tomorrow. *Robert Taylor, Employment Editor*

Brussels commissioner cornered at farm show

By Alison Maitland in Stoneleigh

Organisers of the Royal Show, England's premier agricultural event, left no hostages to fortune during yesterday's visit by Mr Franz Fischler, European farm commissioner.

There was duck, not beef, on the lunch menu, although Mr Fischler later sampled some at the Meat and Livestock Commission stand. He was kept well away from the cattle lines, where hundreds of prime beef animals were waiting to be entered in the championships.

Instead, his itinerary included a visit to the organic food and farming centre "and either the British food pavilion or the flower show", said an official from the Royal Agricultural Society of England.

Standing ankle-deep in mucky straw in the cattle lines, Mr Richard Dibben, vice-president of the Aberdeen Angus Society, thought this was a wise move.

"He would get a pretty unkind reception here, I should think," he said. "He should take the politics out of it and get back to reality."

Mr Dibben, waiting to show Shade Pond Prince, a sleek, 16-month-old black bull, added: "We haven't actually got a BSE problem of any significance that isn't being dealt with."

The invitation to Mr Fischler to open the show, issued in November long before the "mad cow" crisis erupted, had aroused wrath from some farmers. But yesterday farmers' leaders and the show organisers defended the decision as a chance for Mr Fischler to hear farmers' views at first-hand.

Franz Fischler made the opening speech at the Royal Show yesterday while UK agriculture minister Douglas Hogg listened

No rotten beef or tomatoes were thrown, but the temperature rose a little at a meeting with about 300 farmers – admitted by ticket only. Mr Fischler addressed the meeting on world food security. But there was not a single question about food security, only about beef.

Why was Britain alone being punished by a worldwide ban on exports when BSE existed elsewhere, asked a Yorkshire farmer to loud applause. Did the under-reporting of cases in mainland Europe not render the export ban untenable, another farmer from northern England inquired.

The stout commissioner from the Tyrol, showing no signs of a man at bay, said he had heard "rumours" about under-reporting and would ask the European Commission's scientific advisers to investigate. But he added that "the damage [from BSE] is everywhere".

Mr Fischler was non-committal about the assertion last week by Mr John Major, the prime minister, that most elements of the European Union ban on beef exports could be lifted by November. He pointed out the preconditions Britain has to meet before the Commission and member states consider a step-by-step lifting of the ban. "This [conditionality] is more important than to announce a date."

Passports were made compulsory in Britain yesterday for all cattle born from now in measures to improve identification.

Opposition succeeds in amending controversial bill

Government defeated on asylum seekers' benefit

By James Blitz, Political Correspondent

The opposition Labour party last night inflicted a defeat on the government's plans to curb benefit payments to some asylum seekers, ensuring that more of them will be able to claim social security help after entering the UK.

Following an acrimonious debate in which the government's plans were severely criticised by three bishops and a leading judge, the House of Lords, the unelected upper House of Parliament, voted to allow visitors to the UK three days within which they can apply for refugee status and subsequently receive welfare benefits.

The vote, which was passed by a majority of three, should reduce the scope for Mr Peter Lilley, the social security secretary, to make £200m ($306m) of annual savings in his departmental budget.

However, ministers were relieved when, in a subsequent vote, the Lords decided by a bigger majority to accept the broad thrust of the controversial reforms which Mr Lilley had put forward.

The votes in the Lords, which came during a debate on the government's asylum bill, mean that most of Mr Lilley's plans have definitely survived. They have endured six months of hostility from opposition parties, prominent pressure groups – and even the Court of Appeal, which ruled last week that the proposals were illegal.

Last night's votes mean that the Court of Appeal's ruling has been bypassed by primary legislation.

The government is now able to implement proposals under which anyone who comes to the UK as a business visitor or tourist – and then subsequently applies for asylum - will not be allowed to receive benefits while their claim is being processed by Home Office officials.

Labour and the Liberal Democrats expressed some jubilation after defeating the government on a clause which will allow business visitors and tourists to receive welfare benefits if they make their claim for asylum within three days of arriving in the UK.

Following attacks on the government by Lord Donaldson, the former Master of the Rolls, and the bishops of Oxford, Ripon and Lincoln, the clause was passed by 158 to 155.

Baroness Hollis, Labour's spokeswoman in the Lords, said that the three days' grace would allow visitors time to make contact with ethnic groups in the UK before making their asylum claim.

Mr Claude Moraes, director of the Joint Council for the Welfare of Immigrants, welcomed the government defeat as "a major victory for asylum seekers." He added: "We believe the government has suffered a major blow and must now rethink the direction of its asylum and immigration strategy."

N Ireland nationalists deplore soldiers' return

By John Murray Brown in Dublin and Jimmy Burns in London

The moderate nationalist Social Democratic and Labour party in Northern Ireland yesterday reacted angrily to confirmation that the British Army's Parachute Regiment is to return to the region for a six-month tour of duty.

Mr Seamus Mallon, deputy leader of the party, said the decision would "add to the tension that already exists".

The Ministry of Defence said it planned to go ahead with a decision taken late last year to send the paratroopers to replace an existing battalion. "It forms part of a routine deployment of troops. There is nothing exceptional about it," the ministry said. Confirmation of the deployment comes just a few days after Prince Charles, the regiment's colonel in chief, was embroiled in a protest over its activities while on a visit to Londonderry. In January 1972, 13 Roman Catholics were shot dead in the town by paratroopers during a demonstration in what came to be known as Bloody Sunday. The incident led indirectly to the imposition of direct rule of Northern Ireland from Parliament at Westminster. The Irish News yesterday published a letter from the prince to relatives of those killed on Bloody Sunday, in which he recognised "their strength of feelings and the right to protest" but urged them "not to dwell on past tragedies".

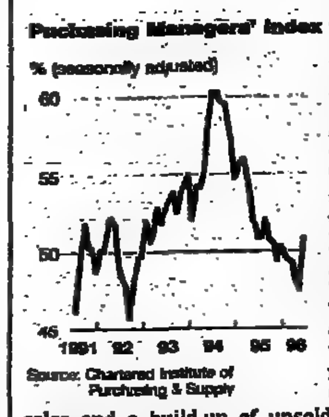
Pro-British politicians called for a strong reaction from the UK government to the Irish Republican Army's recent mortar attack on a British army base in Germany. The UK's current military strength in Northern Ireland stands at 17,500 troops.

Military intelligence in Northern Ireland is thought to be increasingly concerned that the IRA might step up its activities with a resumption of attacks on army targets in the region.

● Mr Gerry Adams, president of Sinn Féin, the political arm of the IRA, urged Mr John Major, the UK prime minister, to create trust to rebuild the Northern Ireland peace process. British government policy was "critical", he insisted. For the 18 months of the IRA ceasefire there had been no negotiations. "This period of bad faith has created a gap of distrust which the British must move to close," Mr Adams declared.

UK ECONOMICS DIGEST

Manufacturing output revives



Manufacturing activity expanded last month for the first time in six months as it responded to strengthening consumer demand. But price competition intensified and companies laid off workers for the second successive month. The cautiously brighter picture of Britain's beleaguered manufacturing industry which has slipped into recession this year emerged yesterday from the latest monthly survey by the Chartered Institute of Purchasing and Supply. The survey has shown manufacturers restraining output this year in the face of faltering export sales and a build-up of unsold goods. But the latest report suggests growing consumer demand fuelled by rising personal incomes may now be stimulating industry.

Separate figures yesterday from the Bank of England provided support for the view that rising consumer demand will underpin economic growth. Consumers borrowed a net seasonally adjusted £684m ($1.05bn) in May from banks and other lenders, below the record £1.1bn consumer credit borrowed in April. But gross lending remained strong at £8.1bn.

Graham Bowley, Economics Staff

Growth forecast backed

A forecast from the Society of Business Economists, a grouping of 800 independent economists, provides firm backing for the view that the UK is poised to enjoy strong consumer-led growth. The society predicts that annual growth in gross domestic product will accelerate from 2.1 per cent this year to 3 per cent next year led by strong consumer spending growth. It will then slow in 1998. Mr David Kern, chairman of the society and chief economist of the NatWest Group, said the subsequent slowdown "will mainly be in response to higher interest rates and a tighter fiscal stance after the general election".

Graham Bowley

Fewer businesses fail

Business failures slowed sharply in the past three months to the lowest level for 1½ years, says a survey from Dun & Bradstreet, the business information company. About 9,300 companies went out of business in Great Britain in the second quarter of this year compared with 11,033 in the comparable period of 1995. London had the biggest drop in the failure rate, and about 1,447 companies went out of business in Greater London during the second quarter compared with 2,142 in the corresponding period last year.

Graham Bowley

Rolls-Royce forgings contract

Wyman-Gordon, the US-owned engineering company, has won orders worth £14.5m ($22.2m) from Rolls-Royce's aerospace division to make forgings for the latest version of the RB211 engine at its plant in Livingston, Scotland. Wyman-Gordon also won a £1.5m order from Kawasaki Heavy Industries of Japan for its Rolls-Royce Trent 800 programme. Rolls-Royce, the manufacturer of aero-engines, is no longer connected to the Rolls-Royce car company, which is an offshoot of Vickers.

James Buxton, Edinburgh

TECHNOLOGY

In semiconductor terms, a particle the size of a pea on a surface of silicon wafer the area of a football pitch represents an unacceptable level of contamination. That is why the electronics industry has developed huge so-called "cleanrooms" where the air is constantly pumped, monitored, temperature-controlled and filtered, and operators wear head-to-toe protective clothing.

Now, however, industry is starting to favour an alternative approach – "mini-environment technology" – and the age of the cleanrooms will soon be over, says Walter Roessger, managing director of SEMI Europe, the European arm of the international trade association, Semiconductor Equipment and Materials International.

"If you put the cleanroom in the machine rather than the machine in the cleanroom, you can save a lot of money and keep particle contamination to a minimum," he says.

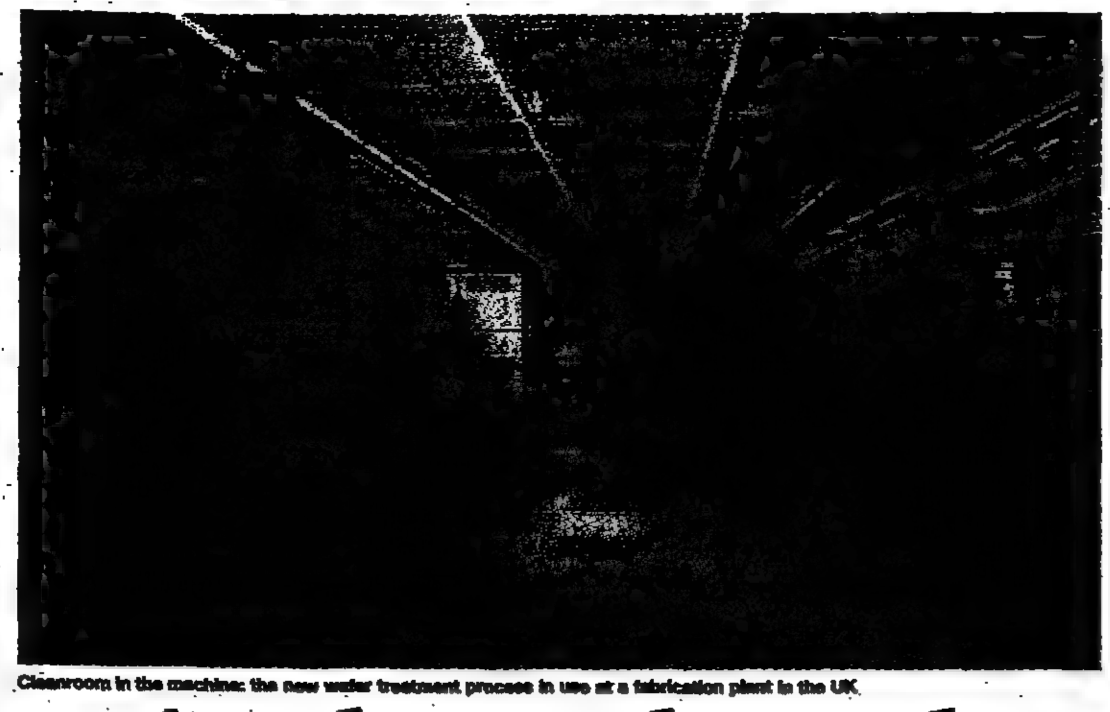
Cleanrooms are extremely expensive to operate because millions of cubic feet of air have to be pumped through them every hour. They are also costly to build, with expert estimates of \$1bn (£650m) for a single room, or \$3,000 per square foot.

The cleaner the cleanroom, the more costly it becomes. Semiconductor standards require a Class 1 cleanroom – one particle for 1cu ft of air. The mini-environment technology is less costly and more effective because, it eliminates contamination from only the immediate vicinity of silicon wafers, instead of cleaning a whole facility.

Work on the mini-environment at SEMI has resulted in the creation of the SMIF, or standard mechanical interface for mini-environment devices. One equipment manufacturer pioneering this technology is Asyst in Fremont, California, which supplies sealed containers called SMIF-pods to encapsulate the wafer cassettes, enclosures with engineered airflows that surround the process equipment (SMIF-enclosures), and robotic systems that transfer wafer cassettes into and out of process equipment (SMIF-arm and indexers).

Thus, as the wafer travels through the factory from one processing step to another during its production cycle, it never comes into contact with the "dirty" factory environment.

The SMIF-integrated mini-environments are guaranteed to provide a better than Class 1 cleanroom environment and are sometimes as good as Class 0.1, says Hugh O'Reilly, vice-president of Asyst's European operations. Asyst has already carried out 35 SMIF-type projects and claims to have 80 per cent of the market worldwide. It is now supplying a \$12m SMIF installation to Newport Wafer-Fab in Wales.



Cleanroom in the machine: the new wafer treatment process in use at a fabrication plant in the UK

A clean break

Mini-environments are reducing contamination in the semiconductor industry, writes Anna Kochan

Although a mini-environment is a cheaper solution than building a cleanroom, cost of construction or operation is not the vital factor in the decision to opt for a SMIF solution, O'Reilly stresses. "The important point is that it gives high yields of consistent quality because it enables better environmental control," he says.

"Even with a Class 1 cleanroom, wafer yield suffers from the top wafer effect – this is the difference in yield between the bottom wafer in a batch and the top wafer because of dust particles settling on it. The top wafer yields 5 to 10 per cent less good product than the bottom one."

The ability to produce greater numbers of good chips off the same wafer is the key benefit of SMIF, says James E Holliday, executive vice-president of Jenoptik Infab, part of the German Jenoptik group. "Using SMIF, it's possible to increase yield by 0.1 to 10 per cent," he says.

Jenoptik Infab has recently completed a multimillion-dollar installation of SMIF/mini-environment technology at GEC Plessey Semiconductors in Plymouth and is to supply automation systems to the new Siemens wafer fabrication plant (fab) in North Tyneside in a contract worth DM20m (\$8.5m). It will be Siemens's first fab equipped with SMIF technology, says Holliday.

O'Reilly says that, as well as yield, another key point is the speed at which new fabs can be made to start producing if they employ the SMIF approach. "Each process step can start to be checked and tested even without building a cleanroom environment. It means that ramp-up of an installation takes about four months less than otherwise."

SMIF concepts are not new – they have been in use for about 10 years, though not very widely. During the past two years, however, SMIF has produced dramatic results, particularly in Taiwan and Singapore, and its adoption has started to accelerate, says Holliday.

Perhaps somewhat optimistically, Roessger forecasts that all new wafer fabrication facilities built before the end of the century, a figure he estimates at between 150 and 200, will apply mini-environment technology in preference to a Class 1 cleanroom.

However, SMIF is being implemented less enthusiastically in Japan than in other countries because the Japanese have achieved a certain mastery of cleanroom technology, according to Ulrich Winkler, marketing director for Europe at Applied Materials, the big fab equipment supplier. "The Japanese have perfected the design and operation of cleanroom technology to such an extent that there are possibly no savings to be gained by implementing SMIF," Winkler says. The same applies to the Koreans, he adds.

Gains from SMIF concepts will also be less impressive for those fabs making high-volume products. "SMIF is a better logistics concept for fabs making small batches of a wide variety of product such as those producing application specific integrated circuits," Winkler says.

He questions the benefits of SMIF to fabs producing large quantities of identical products in a mass-production process – where the wafers are continually moving and there is less risk of contamination from the top wafer effect.

Finally, Roessger sees the introduction of mini-environment technology and automation as going hand-in-hand.

"Those fabs being built between now and 2000 with mini-environment technology will also be highly automated, as this is the only way to monitor and continually optimise process performance," he says. "Fabs today operate with 60 to 70 people per shift. This will come down to 10 to 12."

A Japanese engineer's box of tricks is helping detect forged banknotes, reports Emiko Terazono

The victim countering the counterfeiters

When Yoshihide Matsumura, the owner of a small electronics manufacturing company in Tokyo, fell victim to credit-card fraud in Hong Kong, he felt so angry that he decided to hit back.

Using his expertise in fingerprint identification technology, the engineer has now developed a high-grade counterfeit bill detector, which was launched by his company Matsumura Electronics in April.

With special sensor rays checking the notes, this machine can identify some of the most sophisticated fake bills.

The company can only produce 500 units a month, but already has orders for 45,000.

Interest in the product has increased since the arrest of Yoshimi Tanaka, a former member of Japan's Red Army Faction who fled to North Korea. He was apprehended at the Cambodian border last March and is alleged to have been involved in circulating high-quality counterfeit US dollar bills, known as "supernotes" or "superdollars" and thought to be produced in North Korea.

US officials estimate that a total \$380bn (£247bn) in fake dollars is in circulation around the world. The notes are easy to copy because the quality of the originals tends to be quite low, says Matsumura.

Counterfeit dollar bills are judged on a scale of one to nine, with the crudest at level one. The detector machines that existed before Matsumura's could only pick out bills of around five or six. Supernotes are ranked between seven and nine and have been almost impossible to detect.

Matsumura says they do have flaws, though, and his machine can spot differences in the printing by referring to a histogram, or statistical graph, of patterns on real US notes.

Each supernote tends to have two or three minute aberrations. Consequently, sensors check for any variations at 12 points on the note. A 0.5-second scan also monitors the thickness of the paper and the printing ink.

Although Matsumura is unwilling to reveal all the secrets of his machine in case competitors and counterfeiters exploit them, he does say that forgers tend to leave some sort of mark on the most sophisticated notes, so that they can be certain of not ending up with fake bills themselves. The machine also checks for those telltale marks.

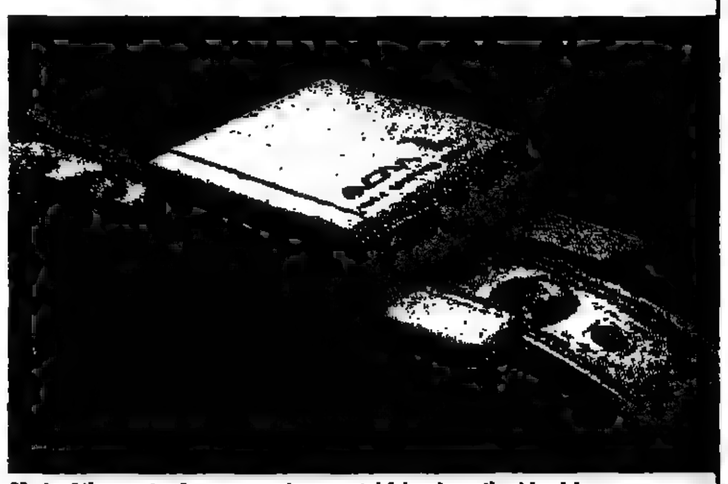
Matsumura Electronics is selling its machine for Y198,000 (£1,175) through a distribution network covering 40 countries, and demand is particularly buoyant in Russia, the US, south-east Asia and the Middle East. The forgery problem is especially bad in Russia. One Matsumura machine detected 280 fake notes in a single day at one foreign exchange business in Moscow.

Matsumura realises that his company poses a threat to various criminal organisations and has already received several menacing telephone calls from unknown individuals. He believes that only a small company such as his could manufacture a fake-bill detector because research and development need large quantities of counterfeit notes.

"A Japanese blue-chip corporation would not be caught with fake bills in its possession. That just would not look very good," he says.

Production of a high-grade detector is a long-term process because the counterfeiting technicians are constantly developing ways to create sophisticated fakes. Matsumura has already obtained a level 10 counterfeit and believes that it will not be long before the top forgers start churning out versions of the new dollar notes the US treasury has begun printing.

"However, if my machine can stamp out the existing fake notes, that's still a lot of counterfeit money," he says.



Mark of the master forger: even 'supernote' fakes have tiny blemishes

Matsumura realises that his company poses a threat to various criminal organisations and has received several menacing telephone calls . . . the counterfeiting technicians are constantly developing ways to make sophisticated fakes

LAW

French vehicle rules unlawful

EUROPEAN COURT

French legislation concerning model-year dates for motor vehicles was unlawful where it had the effect of impeding imports, the European Court of Justice ruled last week.

The case arose in criminal proceedings brought against a Mr Rémy Schmit, the manager of a French company which specialised in the import and export of private cars and the sale of secondhand cars. He was charged with offences under the French rules on vehicle model-year dates.

Before marketing motor vehicles in France, all manufacturers and importers are required to send details to the minister of transport, including a description of the models they intend to put on the French market in any year.

Each vehicle which conforms to the description of that model is then designated by the model-year date for that year, provided that it is sold to the user after June 30 of the previous calendar year.

As a result, vehicles sold between July 1 and December 31 1995 in France would be given the anticipated model-year date of 1996.

The French rules therefore differed from those in force in most other EU states, which generally gave vehicles a model-year date conforming to the calendar year in which they were first sold or registered.

Mr Schmit was charged with omitting to mention the model-year date on invoices, and with attributing a wrong model-year date to vehicles.

He did not contest the substance of the charges but argued that the French rules were contrary to Treaty of Rome provisions on the free movement of goods because they put parallel imports at a disadvantage and hence helped to partition the markets.

The Court of Appeal of Metz stayed proceedings and referred a question to the Luxembourg court. It asked whether free movement of goods rules precluded national rules concerning model-year dates where they resulted in a different model-year date being ascribed to a vehicle than if it was manufactured in another member state and the subject of parallel importation.

The court emphasised that the place where the vehicles had been manufactured was irrelevant under European rules, as a vehicle manufactured in a national territory which was then exported and reimported through parallel channels constituted an imported product in the same way as a vehicle manufactured in another member state and directly imported into the national territory.

It also observed that since no harmonising measures had been adopted in relation to vehicle model-year dates, the question had to be answered solely in the light of treaty provisions concerned with the free movement of goods.

The French government argued the rules in question applied without distinction to vehicles produced in France and in other member states, and it cited a judgment of a Paris court in support of this. It contended that since the scope of national laws, regulations or administrative provisions must be assessed in the light of the interpretation given to them by national courts, the rules did not restrict, directly or indirectly, actually or potentially, trade between member states.

The court rejected that argument. It pointed out that reference to a single decision did not enable a particular interpretation to be established. The rules in question were likely to discourage the sale of imported vehicles insofar as they were presented as being of an earlier year and accordingly the sale price was lower.

The court concluded the French rules had the effect of impeding imports and rejected the French government's argument that the rules were designed to satisfy requirements of consumer protection or fairness of commercial transactions. They were therefore contrary to treaty rules on free movement of goods.

C-240/95: Schmit, ECJ 5CH, June 27 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Salomon Bros AG picks top man

Hendrik Borggreve is leaving the corporate embrace of one of Germany's biggest banks to take up a more flexible role with the German operation of a leading US investment bank. On September 1, he will become joint head of Salomon Brothers AG in Frankfurt and head of German corporate finance.

Berlin-born Borggreve, a lawyer with a friendly, outgoing manner, worked for US, German and French banks before starting up the Frankfurt-based operation of Kleinwort Benson. The UK merchant bank was acquired last year by Dresdner Bank, Germany's second biggest bank.

At Salomon, he will be joint board spokesman in Germany with Daniel Lee. With his experience in equity business, new issues and privatisations, he will help expand Salomon's German presence in these sectors. Lee, with Salomon in Frankfurt for nine years, has a fixed income background and concentrates mainly on sales and trading.

Borggreve, 53, started up Kleinwort Benson's German unit in 1991, having previously worked with Lehman Brothers, Paribas and Commerzbank.

At Salomon, he will regain some of the independence lost when Kleinwort was absorbed by Dresdner. It was the departure of Frank Beelitz and Peter Coym to Lehman Brothers, his former employer, three years ago that left a corporate finance gap at Salomon. *Andrew Fisher*

Molson's new boss

Canada's 210-year-old Molson Companies group,returning to its brewing roots, has recalled Norman Seagram, 62, to take the helm as president and chief executive from Marshall Cohen, 61, in September.

"I've never been one to fear a challenge," says Seagram, after heeding the call from Molson chairman Eric Molson. "But this is going to be a big one."

Athletic and active in the Olympic movement, Seagram counts on his long experience of the beer business and ice hockey – Molson owns the Montreal Canadiens National League team – as he prepares to propel Molson along new paths.

He was born in Toronto and holds engineering and business degrees from the University of Toronto and Birmingham University. He worked in England and Africa before returning to Canada to join Molson in 1968. Soon he was running several subsidiaries and then in 1985 took over Molson Breweries, the brewing unit.

By 1988 he was executive vice-president of the parent Molson Companies. After Molson breweries merged with Carling O'Keefe in 1992, he moved to L'Air Liquide, in Paris, and soon afterwards returned to head the Canadian subsidiary.

Seagram is returning to a very different company. Cohen, a former federal deputy finance minister who joined Molson in 1988, led a controversial diversification programme, buying Diversey, the international special chemicals group. But Diversey's US business was like a millstone and the company will soon have been sold for about C$1.1bn. *Robert Gibbins*

French fashion move

Group André, the French shoe and clothing retailer, may have moved rapidly over the years to adapt its products and shop designs in line with the latest fashions, but it was distinctly out of step with its peers when it came to the pace and style of top management change.

While many French businesses have a high turnover of executives and a reputation – often criticised – for picking outsiders for the top job, André has gone in for boardroom longevity. Jean-Louis Descours last week announced his intention to step down, after 36 years as chairman. Descours, 79, spent most of his career at André, joining in 1947 and becoming only the group's third only chairman in 1960.

The day after the group celebrated its 100th birthday in late June, its annual general meeting approved his successor, who is to be Jean-Claude Sarazin.

Sarazin joined the group at the end of 1995 after spending most of his career with La Redoute, the retail group. His first challenge will be push the business back into the black, after it reported a net loss of FFr23m ($4.42m) for the six months to February 29 this year.

Descours has no intention of retiring shyly from his group, however. He announced a new structure for André, creating a two-tier board, with Sarazin heading the executive committee, but Descours continuing as head of the new supervisory board to oversee operations. *Andrew Jack*

Jacobs sails upwards

Flemming Jacobs is to become a partner – with the right to the prestigious title of shipowner – in the A.P. Moller-Maersk shipping group, the Danish-based global shipping business, from January 1, 1997.

Jacobs, 52, joined the group as a 16-year-old trainee in 1960 and has spent his entire career with A.P. Moller, covering a period in which Moller's Maersk Line container carrying service has become the biggest business of its kind in the world. He was picked out early for future promotion when he was made personal assistant to Maersk McKinney Moller, whose father, Arnold Peter Moller, gave his name to the business. Jacobs later rose to executive vice-president of the liner division in Copenhagen from 1986 to 1991, when he became widely known as "Mr Maersk."

In 1991 he was sent to London to head The Maersk Company UK; since 1994 he has been managing director of the Maersk organisation in Singapore with responsibility for Maersk Line in Asia and the Middle East.

His co-partners at A.P. Moller – which besides its global shipping business has extensive industrial interests in Denmark and is the operating company for a consortium which produces oil and gas from the Danish sector of the North Sea – will be the 83-year-old Moller himself, Jess Soderberg, 52, group chief executive, Ib Kruse, 64, and Kurt Andersen, 62. *Hilary Barnes*

ON THE MOVE

■ Arie Rosenfeld, the former chief executive of Scitex Corporation, has been named chairman of the Israeli-based hi-tech company DMATEK's subsidiary Advanced Vision Technology, specialising in press control systems based on machine vision.

■ Howard Pierce, 55, who currently heads ABB's operations in China, has been appointed executive vice-president and member of the group executive committee responsible for the Americas region. He succeeds Robert Donovan, who died in a plane crash near Dubrovnik.

■ Bjorn Flatgard, currently president of Nycomed Pharma, becomes president and chief executive of ELOPAK of Norway.

■ Dieter Draeger, currently a board member at DEA of Germany, joins the board at RWE, from January 1. He replaces Peter Koch who is retiring.

■ Ignacio del Rio and Dario Fernandez-Yruegas have been appointed to the board of the Spanish savings bank, CAJA DE MADRID. Del Rio replaces Esperanza Aguirre, who is now minister of education and culture.

■ COGNIZANT, the largest of the three publicly traded companies arising from the break-up of Dun & Bradstreet, has named the following board members: Clifford Alexander (president of Alexander & Associates); Robert Lanigan, (chairman emeritus of Owens-Illinois); James Peterson, (former president and chief executive of Parker Pen), and Bernard Puckett, (former president and chief executive of Mobile Telecommunication Technologies). The new DUN & BRADSTREET Corporation directors are: Hall Adams, (former chairman and chief executive of Leo Burnett); Clifford Alexander; Mary Johnston Evans, (former vice chairman of Amtrak); Robert Lanigan; Vernon Loucks, (chairman and chief executive of Baxter International); John Meyer, (Harvard University); James Peterson, and Michael Quinlan, (chairman and chief executive of McDonald's).

■ John Warner, 48, has been appointed vice-president and general manager of GRACE PACKAGING Europe, based in Lausanne, Switzerland. He was previously vice-president and general manager of the W.R. Grace subsidiary's Asia Pacific operations in Hong Kong.

■ Juha Seppala replaces Juhani Poho as senior vice-president and corporate controller of TAMPELLA, the Finnish industrial group recently taken over by Sandvik, from July 1. He will continue as group vice-president, finance, and chief financial officer of Tamrock. Poho is leaving the company August 31. Monika Nogaret has been appointed chief internal auditor.

■ Paul Choffat has handed responsibility for the integration of NOVARTIS to Cynthia Hogan, a member of the executive committee of Sandoz Pharma. Choffat returns to line management as chief executive of Fotolabo.

■ Loay Al-Naqib, general manager of Arig Re, the reinsurance arm of Bahrain's ARAB INSURANCE GROUP (ARIG) is leaving. He will be replaced by Farooq Khwaja, the first reinsurance professional to join ARIG in 1981.

■ Tamas Rusznak has resigned as chairman of the Hungarian state banking supervision body, ABF. He will be replaced by Imre Tarafas and Rezsoe Nyers becomes deputy chairman on July 1.

■ Saithien Pitakanonda has been appointed president of the TELEPHONE ORGANISATION of Thailand, from October 1. He replaces Chumpol Herabutra, who retires at the end of September. Oran Plentham becomes vice-president, replacing Direk Charoenphol, who also retires at the end of September.

■ Michael Marcovsky, former chief executive of Nostalgia Network, becomes president of OLYMPIC ENTERTAINMENT GROUP, a US television and film production company that created and developed the Children's Cable Network. Marcovsky has long experience of cable broadcasting.

■ Robert Myers, 51, has been named president and chief operating officer of PRIORITY HEALTHCARE CORPORATION, a subsidiary, created in 1994, of Bindley Western Industries, one of the largest drug wholesalers in the US. Myers was formerly senior vice-president of Pharmacy at Eckerd Corporation.

■ Gerry van der Merwe has resigned after 11 months as managing director of the STATE BANK OF NSW to "concentrate on personal business interests."

■ Kelvin Chong Mong Yuen becomes a non-executive director of Malaysia's Perusahaan Otomobil Nasional (PROTON) from June 17, and will chair the audit committee.

■ Gavin Ellis, 49, has been appointed editor of the New Zealand Herald, flagship of publishing group WILSON AND HORTON, recently acquired by Ireland's Independent Newspapers. He takes over from Peter Scherer, who is retiring.

■ Jonathan Fiechter, 48, acting director of the US Office of Thrift Supervision since 1992, is leaving on September 4. He will become director of the financial sector development department at the WORLD BANK.

■ Paul Schoen is resigning as executive vice-president, finance, and chief financial officer of COLTEC INDUSTRIES, a US aerospace, automotive and industrial company. Schoen will continue as an adviser to chairman, president and chief executive John Guffey until a successor is appointed.

■ The EUROPEAN COMMISSION has appointed Pablo Benavides as director general for energy; John Richardson as deputy head of its Washington delegation; Ottokar Hahn as head of the Moscow delegation; and Margareta Pettersson as director, financial control.

■ Paul Hendrys of Philip Morris has been appointed chairman of the Bonn cigarette association, VERBAND DER CIGARETTENINDUSTRIE.

■ Bernard Esambert, chairman of the supervisory board at Lagardere Groupe subsidiary Banque Arjil, has been appointed adviser to Yves de Chairmartin, chairman of Socpresse, lead company in France's HERSANT media group. De Chaisemartin has undertaken a radical restructuring of the group since the death of Robert Hersant in April.

■ John Browne, chief executive of British Petroleum, has been appointed a non-executive director of SMITHKLINE BEECHAM.

■ Gerard Seelig, former executive vice-president of Allied Signal, has been appointed a non-executive director of LARSON-DAVIS, an instrumentation and software company.

■ Lee Nelson has joined SPYGLASS, a US IT company, as vice-president of human resources; she was previously senior human resource manager for Sun Microsystems.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

Endless variations on 'Old Glory'

William Packer reviews Jasper Johns's collection of stars and stripes

To Americans their flag is a very serious matter. Not for them the ribald, satirical or decorative appropriation of it to any purpose but that served at the top of a pole. Woe betide the humorist who thinks those stars and stripes would make a pretty pair of knickers or a funny hat. Burn the flag, do anything to the flag, and Uncle Sam, in his fine topper and waistcoat, gets most indignant.

And since the war the Americans have also taken their modern artists very seriously indeed, for in all things they do rather like to consider themselves the "Top Nation". Assiduous cultural diplomacy and propaganda sustained over decades ensured that the Abstract Expressionists of the 1950s, and then the Pop Artists, Colour Field Painters and Minimalists of the 1960s and '70s, duly led the world.

Among all the artists to profit by such care, Jasper Johns – whose work has touched all those bases in its time, from Surrealist Pop to Cerebral Abstraction – became and remains as successful as any. Of all living painters, he has commanded the highest prices for his work; more than Matisse or Picasso, more than the Old Masters. To Americans he is already an Old Master. And he has been making paintings and drawings of the stars and stripes, even casting the flag in bronze in low relief, without complaint or scandal, for the past 40 years.

He first began to make his name in the mid-1950s, when he was 25 or so, and much engaged with imagery derived from popular culture and the mundane world, from fairground targets to beer cans and paint brushes. These he presented, whether painted on canvas or cast as sculpture, with an ironical detachment and matter-of-fact simplicity. If it was Pop-Art, it was thoughtful rather than celebratory, rooted in Dada and the ideas of Marcel Duchamp of 40 years before, and clearly anticipating much of conceptual art to come.

His principal claim to being one of the more significant artists of the century rests on the work he did in the ten years after 1955, when he seemed to sit at the point of balance of the century's modernism.

And it was in 1955 that he completed his first "Flag", the stars and stripes, a large collage and encaustic painting, red, white and blue on three plywood panels, now in the Museum of Modern Art, New York. The story is that the idea of doing such a thing came to him in a dream, and one can only wish one's own were as productive. He has since produced some 90 flags of all kinds, colours and sizes, at fairly regular intervals after the initial flurry, the latest a bronze early this year.

The group of 25 now at d'Offay represents almost the full scope of the series, in date, medium and formal variation, from a small black pencil drawing washed with lighter fuel of 1955 to a dark acrylic painting of 1994.

The show offers, too, the typical range and quality of the achievement, from the particular and intense to the decorative and superficial, which more or less accords with early and late. Johns is no great draughtsman, but has ever enjoyed a most seductive way with surface as surface, whether washed with the lightest brush or encrusted with the thickest wax. Which brings us to the point and very heart of the work.

The image of the stars and stripes, as of any flag, is ready-made, its formal structure given, take it or leave it. Leave aside any sense of the depiction of the flag in a pictorial space, and drop all national gloss or connotation, and what is left is simply an object with an abstract organisation of its surface. Painted out to the sides of the support, or set within simple borders on the page, that object is indeed but another, albeit stiff, flag. It is entirely neutral, requires no editing or alteration, no decisions. Painted well or badly, it is still a flag, The Flag, Old Glory.

The intriguing thing in the first instance is, of course, the immediate discovery that it is not quite so simple. For the flag is The Flag, and Johns's deconstructions do not, in fact, lose anything of its particularity. Paint it black and blue, paint it white, paint it green and yellow, even paint it red, white and blue, and it is still The Flag. And if the old hand-on-the-heart simplicity of response is no longer there, the delicate, enquiring ambiguity that replaces it is not at all a satirical disavowal – which is perhaps why Johns has got away with it for so long.

It is still art by virtue of its very ambiguity, at least at first. The earlier flags, even the tiniest scraps, have to them a weight and presence born of the integrity of the artist's engagement and curiosity in making the image now exact, now loosely drawn, now black, coloured, scribbled, overlaid, set apart. But once done, it is done, and for all the variation and repetition of the later work, how ever so elegant, Johns never quite manages to do it again.

Jasper Johns – Flags 1955-1994: Anthony d'Offay Gallery, 24 Dering Street W1, until July 27.

Opera

Model Mozart

Even on a miserable drizzly evening opera *al fresco* at Garsington has its charms. The audience is reasonably well cocooned thanks to the combination of a large awning and plastic side walls, through which one can gaze out at the beautiful gardens if the opera itself loses its attraction.

There was plenty of time to admire the view during this *Idomeneo*, although that should not be taken as a negative comment on the musical side of the performance. Since last year Garsington has found the resources to put on three productions a year, which is a considerable achievement when one thinks that it is limited to 18 performances a season and the audience capacity is small. Budgets must be carefully handled.

Idomeneo was the the third of the three this year – probably in every sense, as the other two had generally won glowing comments. It had a single decisive strength, which carried the evening. The playing of the Garsington Opera Orchestra, conducted by Steuart Bedford, was a model of how Mozart should go in the theatre, well-sprung and pointed, alive to every dramatic situation. The storm at the end of the second act was quite thrilling, showing Bedford as another conductor who has successfully taken on board "authentic" vigour and clarity.

For an outdoors venue the sound is surprisingly good, with a fine balance between orchestra and singers. The brightest singing came from the Ilia of Melanie Diener, whose gleaming light lyric soprano is on the threshold of becoming a familiar pleasure in the world's opera-houses, although there is still scope for her to find more light and shade in this role than she does.

Great music, shame about the production: Rita Cullis, in orange wig and pink ballgown, as Electra in 'Idomeneo' Alastair Muir

Jon Garrison played Idomeneo with such writhing angst as to suggest that he had brought with him emotions borrowed from some other production. Everybody else in the cast remained outside their roles, although the firm vocalism of Jean Rigby's Idamante and outgoing Electra of Rita Cullis, unbecomingly costumed in orange wig and pink ballgown, were positive virtues. Ryland Davies may be a name for the small role of Arbace, but that did not justify delaying the start for 45 minutes so that he could sing his four lines of recitative in the first act.

As for the production, what can one say? Designed and directed by David Fielding, it looked ghastly and made an over-clever nonsense of a straightforward mythological tale. Spotting that the location is Crete, Fielding provided a bright-red maze and a body-stockinged minotaur, who prowled the stage as an extra throughout. The chorus, in black, off-the-shoulder tunics and trilby hats, sang from the maze, holding aloft golden model galleons. This was opera production in pop video mode, straight out of art school. Mad cows in the field at the bottom of the garden could not have dreamed up anything more ridiculous.

Richard Fairman

Garsington festival continues until July 14.

Greenaway sets Rome alight

Peter Greenaway's long love affair with architecture has moved from the screen to the piazza. All last week the British filmmaker entertained Romans with a spectacular celebration of light and sound in the Piazza del Popolo. The whole site with the triumphal entry gate of Porto del Popolo, its three baroque churches, statuary, fountains and central Egyptian obelisk, was exploited by Greenaway as a "magnificent 360 degree architectural amphitheatre".

Using a constantly changing mix of 6,000 lights, this amphitheatre became a visual playground of architectural line and architectonic detail. This was accompanied by music and occasionally intrusive natural sounds. The music, composed by Greenaway's long-standing collaborator, Patrick Mimran, emphasised the baroque feel of the piazza.

Greenaway has been fascinated by the Piazza del Popolo since shooting there parts of his *Belly of the Architect* – a film he says which explored the responsibility of architects in the 1980s. He was also fascinated by the story of Pope Sistus V, the late-16th century pontiff who redesigned much of Rome and sought to place ancient Egyptian obelisks at the centre points of the main thoroughfares.

The pope's plan to use the obelisks to tell the time of day by their shadows never got off the ground. So Greenaway decided to give him a helping hand, taking Pope Sistus V as the starting point for the spectacle's tenuous narrative structure. Using cinematic techniques of lighting on the piazza, the narrative followed the rhythm of day through night.

The high point of the spectacle was when the two churches of Santa Maria suddenly appeared softly illuminated, like giant baroque ships floating the Corso that leads into the piazza. The narrative lasted only 10 minutes but the audience was meant to repeat the experience by moving round the piazza to differing vantage points. The whole performance ran for three hours until midnight.

Greenaway wanted the public to be like walk-on actors, using the sound and light show to give a new dimension to audience-participation.

Like all Greenaway's work, his ideas are so dense at times that they require footnotes. Who would know without the auteur's prompting that the sound of the peacock is a reference to Nero (it was the emperor's favourite bird) or that the lyrics used are from an inscription in the piazza? But the response has been enthusiastic and offers have come for other such shows in Bologna, Turin and Sienna.

He has had to show considerable persistence in staging this event, which was called off at the last minute two years ago due to political squabbles. This time round, Rome's city hall has been enthusiastic, helping with the 30-odd special permits required to use the piazza. The British Council also pulled out all the stops to make it the centre-piece of *British Waves*, its three-week celebration of the arts.

Cost has conditioned the performance, but Greenaway insists the funds were not so hard to find. Funding has come from three Italian banks, the local electricity company which provided machines and manpower, and the British Council, with a total cost of some £200,000. Entry was free, an important part of the public's casual confrontation with unexpected light and sound.

Greenaway regards this as the beginning of his extra-cinematic activity (his new film, *Pillow Story*, will be released shortly). "Light is a genre of its own," he says. "People are just begining to realise the importance of proper illumination in cities. Many architects now put down 2 per cent of the project cost onto lighting."

He has his eye on various jubilee celebrations around the world. "We can light up on a grand scale." But what fascinates Greenaway is the ephemeral nature of a light show which illuminates and excites with the brevity of fireworks. "This must be an ephemeral experience which then resides in the memory."

Robert Graham

Music in London/**David Murray**

Romanticism and Meltdown

There was a disappointment, and then a happy surprise, at the Royal Festival Hall on Thursday. With Kurt Sanderling and the Philharmonia, Mitsuko Uchida should have played Mozart's piano concerto in C, K. 415, but a family illness made her rush off to Tokyo. In her place we had young Frederick Kempf (BBC "Young Musician of the Year" in 1992), and he made an impressively thoughtful go of it.

All of his playing was sensitive and squeaky-clean, and often eloquent. Especially in the slower passages of the opening Allegro, we heard him pursuing musical thoughts with winning concentration. He could do with another scintilla or two of digital sparkle, which Mozart never disdained. Kempf's tone was big enough, however, to stretch throughout the hall without any exaggerated dynamics – though his fitful way with Mozart's cadenzas was arguably a touch too Romantic.

Sanderling was of course a sterling partner. His own principal offering was Bruckner's 4th Symphony, the "Romantic", in which the Philharmonia played superbly for him: a grand scale of sound, always musical, penetrating and well balanced, never strident even in Bruckner's repetitious *fortissimi*. The symphony emerged as a strongly reasoned whole. I did think wistfully, sometimes, of Tennstedt's soft but vernally tingling way with things like the playful third theme of the first movement – but who can say whether Bruckner would have preferred Tennstedt's suggestive subtleties to Sanderling's architectonics?

★

In the same hall the night before, Murray Perahia gave a fine solo recital. Nothing out of the ordinary, except that he devoted his first half to early 18th-century music that was not written for the pianoforte: three Scarlatti sonatas, an "English" Suite by Bach and another by Handel, along with an expansive Chaconne. Nowadays this is András Schiff territory. Perahia was straighter, less nudgingly artful but almost as elegant.

Nevertheless, as we expected it was Schumann's rich *Kreisleriana* that drew Perahia into his best expressive form. There were lashings of Romantic *Innigkeit* (but quiet and intense, not brandished aloft), along with a firm sense of the dramatic continuity of the whole cycle. He chose to end with Mendelssohn's irresistible encore-piece, the Andante & Rondo Capriccioso: here feathery-brilliant, without any hard virtuoso glint.

★

The current South Bank *Meltdown* festival – a compound of motorised new "classical" music, "crossover" stuff and frank slumming – has been bumpy, what with its central Philharmonia concert cancelled and the rest of the programme much knocked about. Not, I think, the fault of its composer-director, the Swedish-Finn Magnus Lindberg; but anyhow there is another weekend of it to go.

On Sunday it offered a London Sinfonietta concert which repeated the recent Lindberg pieces the Sinfonietta played at Aldeburgh a week ago. *Engine*, his Aldeburgh/Sinfonietta/South Bank commission, had acquired a sharper edge already: deeper contrasts between the hyper-energetic music and the gentler passages. *Arena II* was as good as before, its calculated quasi-tunes as fetching as its urgent, toppling climaxes.

The second half consisted of two near-theatre pieces by Heiner Goebbels, the first – *Herakles 2* – for brass quintet and extras, composed after a Heiner Müller play about Hercules' "second task", and *La Jalousie* (after Robbe-Grillet's *nouveau roman*), which aims to capture the claustrophobic jealousy between the obsessively meticulous lines of Robbe-Grillet's narrator and betrayed husband.

Goebbels enjoys a considerable following in Germany. In cinematic moods, both pieces worked well enough, but musically they were not very interesting – though it took ages to set up the expensive electronics they each required, to no remarkable effect. I doubt that Goebbels' jazz-based idiom, with wilful fractures in post-modern "classical" style, is likely ever to draw much of a crossover audience beyond his native country.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITION
Rijksmuseum Tel: 31-20-6732121
● Nederlandse wapens uit Rusland: this exhibition features 17th-century Dutch fire arms from the Imperial armoury at the Kremlin in Moscow. The weapons were given to the Russian czars by the Dutch; to Sep 29

■ ATLANTA

EXHIBITION
High Museum of Art
Tel: 1-404-733-4400
● Rings: Five Passions in World Art: this exhibition, organized in conjunction with the Olympic Games, explores the power of art to evoke five universal emotions: love, anguish, awe, triumph and joy; from Jul 4 to Sep 29

■ BASEL

EXHIBITION
Kunstmuseum Basel
Tel: 41-61-2710228
● Canto d'Amore. Klassizistische Moderne in Musik und bildender Kunst 1914-1935: exhibition focusing on classicist modernism in music and visual arts. The display features more than 100 paintings, drawings and sculptures from international museum and private collections, as well as musical scores from the collection of the Paul Sacher Foundation; to Aug 11

■ BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-2002000
● City of Birmingham Orchestra: with conductor Sir Simon Rattle and pianist Martha Argerich perform works by Dukas, Bartók, Prokofiev and Ravel; 7.30pm; Jul 4

■ CAMBRIDGE

EXHIBITION
Fitzwilliam Museum
Tel: 44-1223-332900
● Tennyson and Trollope: Book illustrations by John Everett Millais: exhibition featuring a selection of wood-engravings, mainly by the brothers Dalziel, designed by Millais in the 1850s and 1860s to illustrate the poems of Tennyson and the novels of Trollope; to Sep 22

CAMBRIDGE (US)

EXHIBITION
Busch Reisinger Museum
Tel: 1-617-495-9400
● History, Self, and Society: an exhibition focusing on three self-representations by German artists in which a man's suit plays a decisive role: Max Beckmann's "Self Portrait in Tuxedo" (1927), Joseph Beuys' "Felt Suit" (1970) and a painting by Markus Lüpertz from the 1970s; to Aug 18

■ COPENHAGEN

EXHIBITION
Davids Samling - David Collection
Tel: 45-33 13 55 64
● By the Light of the Crescent Moon. The Near East in nineteenth century Danish art and literature: divided into three sections, the exhibition gives an overview of 19th-century Danish artists' portayals and perceptions of the Middle East; to Sep 29

■ FRANKFURT

EXHIBITION
Deutsches Architekturmuseum
Tel: 49-69-2128471
● Film-Architektur, Set Designs von 'Metropolis' bis 'Blade Runner': exhibition of some 200 designs, drawings, sketches, paintings and photos giving an overview of 70 years of film architecture; to Sep 8

■ LONDON

CONCERT
St. John's, Smith Square
Tel: 44-171-2221061
● Trinity College of Music Symphony Orchestra: with conductor Graeme Jenkins perform works by Wagner and Bruckner; 7.30pm; Jul 3
DANCE
Royal Festival Hall
Tel: 44-171-9604242
● Mozart: a choreography by Anne Teresa de Keersmaeker to music by Mozart, performed by Rosas; 7.30pm; Jul 3
JAZZ & BLUES
Barbican Hall Tel: 44-171-6384141
● Julian Joseph Trio: and the London Symphony Orchestra with conductor Mike Gibbs and special guest Joe Zawinul perform music by Gershwin, Julian Joseph, Rodgers & Hart, and Joe Zawinul. Part of The City of London Festival; 7.30pm; Jul 3
OPERA
London Coliseum
Tel: 44-171-8360111
● La Bohème: by Puccini. Conducted by Alex Ingram and performed by the English National Opera. Soloists include Anne Williams-King, John Hudson and Roberto Salvatori; 7.30pm; Jul 4, 6
Royal Opera House - Covent Garden Tel: 44-171-2129234
● Nabucco: by Verdi. Conducted by Mark Elder and performed by the Royal Opera. Soloists include Sylvie Valayre, Elena Zaremba, David Maxwell Anderson and Timothy Robinson. Part of the Verdi Festival; 7.30pm; Jul 3

■ NEW YORK

EXHIBITION
The Jewish Museum
Tel: 1-212-423-3200
● Marc Chagall 1907-1917: this exhibition of paintings, gouaches and drawings provides an overview of Marc Chagall's early career and the decade during which his aesthetic language and attitude were formed; to Aug 4
The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Ancient Art from the Shumei Family Collection: a selection of works from the Shumei Collection. The exhibition features many Asian and Ancient Near Eastern works of art and also includes Egyptian, Islamic and Roman objects; to Sep 1

■ PARIS

EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● Fréderick J. Kiesler: retrospective exhibition devoted to the architect/artist Frederick Kiesler (1890-1965). The display gives an overview of his architectural designs and ideas and shows a selection of his paintings, sculptures, installations and other works; from Jul 3 to Oct 21
OPERA
Théâtre de l'Opéra Comique
Tel: 33-1 42 44 45 46
● Carmen: by Bizet. Conducted by David Heusel and performed by the Opéra Comique. Soloists include Katarina Karneus (Jul 4) and Martine Olmedo (Jul 6); 7.30pm; Jul 4, 6

■ SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall
Tel: 1-415-864-6000
● The Symphony at Shoreline: the San Francisco Symphony with conductor Emil de Cou, pianist Jeremie Michael, the U.S. Army Chorus and the Preservation Hall Jazz Band celebrate the Fourth of July at the Shoreline Amphitheatre; 8pm; Jul 4
EXHIBITION
California Plaza of the Legion of Honor Tel: 1-415-863-3330
● Pergamon: The Telephos Frieze from the Great Altar: exhibition of rare and renowned works of Hellenistic sculpture from the second century BC. Twelve newly restored relief sculptures from the Telephos frieze that once decorated the interior court of the Great Altar of Pergamon are on display; to Sep 8

■ SAVONLINNA

OPERA
Savonlinna Opera Festival
Tel: 358-57-514700
● Der Fliegende Holländer: by Wagner. Conducted by Veilo Pähn and featuring Matti Salminen, Elisabeth Meyer-Topsoe, Kaludi Kaludow, Taru Valjakka, Lassi Virtanen and Esa Ruuttunen; 8pm; Jul 6

■ VIENNA

EXHIBITION
Palais Liechtenstein
Tel: 43-1-3176900
● Erró: From Mao to Madonna: retrospective of this legendary figure of European Pop Art, Object Art and Action Painting; to Sep 8

■ WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-7374215
● Masterpieces from the Palazzo Doria Pamphilj, Rome: exhibition featuring works from the collection of the Doria Pamphilj Gallery in Rome; to Sep 2

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WORLD SERVICE

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Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

هكذا من الأصل

Martin Wolf

Way out of the wasteland

Poland rather than China or Chile represents the best model for Russia to follow in its progress from a planned economy to a market-oriented society

The history of the 20th century has been dominated by the clash between freedom and despotism. History did not cease with the former's triumph. It merely opened a new chapter, that of the transition from the planned to the market economy. The presidential election in Russia will be a decisive episode in this new story, whatever its outcome.

What Russians confront is a choice between a man who offers the delusion of a return to the past and one who, however flawed, provides a vision of a workable future. As this year's World Development Report* demonstrates, Mr Boris Yeltsin's government has been moving along the right road, but too slowly. A careful review of the evidence from nearly seven years of experience in the former Soviet empire demonstrates not just that transition to the market is a practical reality, but that decisive reform works better than vacillation.

The starting point for the World Bank's analysis is why reform became inevitable. This is beautifully explained by the collapsing returns on investment shown below. The point can be put in another way. Income per head in the Russian empire was 90 per cent of Spain's in 1913, according to Paul Bairoch of the University of Geneva. By 1994, the proportion had shrunk to a third, according to the World Bank. The sacrifices of the peoples of the former Soviet Union had been wasted.

This is why Mr Gennady Zyuganov's promise of a better yesterday is grotesque. Return to a planned economy is not merely infeasible. It is insane.

Those who understand this truth flirt with other models – the China of Mr Deng Xiaoping being one, the Chile of General Augusto Pinochet another. Many communists admire the former, while Mr Alexander Lebed, the former general supposed by some to be Mr Yeltsin's heir-apparent, has lauded the latter.

Some Russians find these models attractive, largely because they give legitimacy to the dictatorship they crave. But they are of little economic relevance. Chile's was always a market economy, however distorted, while China's conditions were too different to be relevant to Russia.

This is brought out clearly in the World Bank report.

● Communist China was a poor agrarian society, but the former Soviet Union was a developed, if hugely distorted, industrial one. Moreover, much of its industry produced goods for which there was no need or subtracted value from the raw materials it used.

● The Chinese then developed a new and dynamic economy around the still-surviving state socialist core. But more advanced and more distorted communist countries had first to release resources wasted by their old industries before the new economy could emerge.

● Mr Deng Xiaoping could begin economic reform without undermining the bastions of communist power. But Mr Mikhail Gorbachev could not begin until he had done so, not that he had any clear idea of what he was attempting to do, in any case.

● Since the Chinese possessed few financial assets when reform began, China was able to liberalise prices and finance fiscal deficits by printing money. But the former Soviet Union started reform with a monetary overhang. Thus price liberalisation led to high inflation.

Yet China does offer a few lessons for Russia. As it happens these coincide with some of those offered by the successful transition economies of central and eastern Europe. A reasonable degree of fiscal and monetary stability, liberalisation of agriculture and progressive opening to trade are the heart of China's success. The same is true for Poland.

More broadly, however, Poland and its ilk are the relevant exemplars for Russia and, indeed, for Belarus and Ukraine. In particular, as in Russia, the collapse of the communist state, along with a similar need to restructure state industry, made swift and decisive action essential. Fortunately, the combination of price liberalisation with stabilisation has created the conditions for rapid recovery, improved efficiency and the entry of new businesses. The more rapidly stabilisation and liberalisation were achieved, the faster the turnround and the smaller the social and economic costs.

Poland's output is already back to where it started in 1989 and is now growing quite rapidly. Quality is immeasurably improved. Russia's measured output is, by contrast, more than 40 per cent below its level in 1989 and has yet to recover. Moreover, its dilatoriness has not reduced the social costs a jot. On the contrary, the country has suffered a much bigger increase in income inequality than Poland or the Czech Republic. The decline of six years in Russia's male life expectancy between 1990 and 1994 was also sharper than anywhere else, while infant mortality and life expectancy have actually improved in the advanced reformers.

These divergent outcomes are not surprising. The best remedy both for poverty and collapsing social welfare budgets is economic growth. Moreover, inflation taxes the poor heavily. In 1992, for example, soaring inflation reduced the real value of Russian monetary assets by an amount equal to 30 per cent of gross domestic product. Russian households lost a sum equal to a quarter of their income, with the poor losing proportionately the most.

Successful stabilisation and liberalisation seem enough to turn economies around. But they cannot be sustained without other complementary reforms. Among the most important is the funding of a social safety net. This, in turn, cannot be done without success in raising revenue.

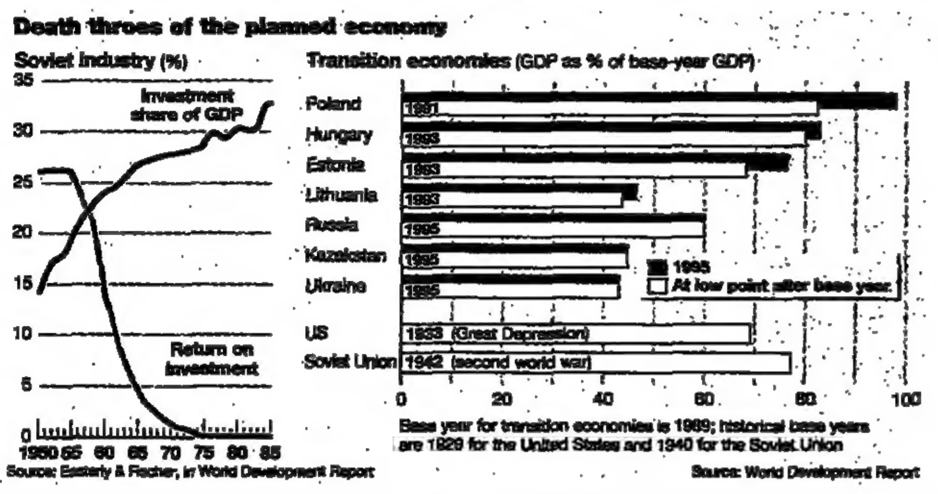
In Russia, among the most important obstacles to raising revenue has been the power of the energy sector. Gazprom, for example, is the largest company in Russia and one of the largest in the world, with estimated revalued assets of US$150bn and after-tax profits of $6bn in 1995. In 1994, says the World Bank, half the company's shares were exchanged for vouchers in closed privatisation auctions. If this colossus had not benefited from tax privileges and complied with all its tax obligations, its additional tax payments would have been 2 per cent to 3 per cent of GDP. This would have gone a long way towards closing the fiscal deficit.

Taxation is just one essential respect in which Russia has failed to carry through essential reforms. It is among the leaders in privatisation, with about 60 per cent of GDP now produced within the private sector. Unfortunately, the full economic benefits come only with the specification and defence of property rights. One of the indicators of its failure is the World Bank's estimate that 3,000 to 4,000 "mafia" groups earn most of their money out of extortion from legitimate businesses.

The road from the moral and economic wasteland of communism was bound to be long and hard. Among other difficult obstacles are establishment of working legal institutions, building sound financial systems, reform of government, transformation of education and health services and, perhaps the most important of all, integration into the world economy.

At very best, it is likely to take well over a decade before market-oriented democracy is fully embedded even in a successful country like Poland. In Russia, it will take at least a generation. But there is no serious alternative. Russia has, with much hesitation, started on its journey. This election will show whether it intends to continue.

**From Plan to Market, World Development Report 1996 (Oxford University Press, for the World Bank).*



Personal View · Onno Ruding

A market taxed by an absence of harmony

The free flow of investment in the EU is needlessly frustrated by national tax policies

It can fairly be claimed that the European Union has in most respects realised the goal of a single internal market – with its attendant free movement of goods, services and capital – as envisioned by the Maastricht treaty in 1992.

However, there are two important areas where the claim does not hold. One, exchange rate volatility, is receiving plenty of attention, and rightly so. The other, corporate taxation, is not, and this must be addressed.

Since Maastricht, efforts have been focused on achieving an economic and monetary union with a single currency in 1999. Surprisingly and disappointingly, in the area of corporate taxation the business world still must contend daily with obstacles to the benefits of a single market. The free flow of investment is needlessly frustrated by national tax policies.

On corporate tax, the EU has suffered from paralysis during the past five years, made all the more striking by the progress in harmonising indirect taxation, for example value added tax and excise duties.

While it comes rather late in the day, encouragement can be found in the European Commission's recent acknowledgement of the link between corporate taxation, the single market and Emu.

The Commission's "Discussion paper on taxation in the European Union", published in March, says: "It would appear contradictory to do nothing to remove tax distortions while trying to remove distortions related to misalignments of exchange rates."

I hope this first step by Mr Mario Monti, commissioner in charge of taxation, to give the tax dossier new life will be followed shortly by substantive proposals – in the form of draft directives for the Council of Ministers – aimed at the most urgent problems related to company taxation.

Day-to-day experience demonstrates that important differences in tax systems, tax rates and tax bases still exist among member countries. These frequently lead to discrimination against both European-based companies and companies headquartered in other countries which are active participants in the European market.

There are many cases of double taxation, particularly on cross-border transactions, investments and shareholdings. This goes against the grain of the single market concept, which should treat such business activities as if they were carried out in one country only.

Almost all the recommendations made by the Committee of Independent Experts on Company Taxation in their report in 1992 are still relevant, particularly since the number of pan-European companies is growing. Although the principles of subsidiarity must be protected, there is a need for some degree of harmonisation. The drive to harmonise should focus on the most blatant cases of distortion and accomplish at least the following:

● Eliminate withholding taxes on inter-company, cross-border payments of interest and royalties (the draft directive on this subject was regrettably withdrawn in 1994).

● Facilitate the offsetting of losses and profits within a group of companies.

● Widen the scope of the EU directive on parents and subsidiaries to eliminate withholding taxes on dividends paid by subsidiaries to parents in other countries.

● Allow companies more flexibility to allocate costs of headquarters for the purposes of tax deductibility.

● Complete Europe's network of bilateral tax treaties.

● Introduce "advance rulings" in all member states to avoid double taxation arising from transfer pricing disputes.

> Disappointingly, in the area of corporate taxation the business world still must contend daily with obstacles to the benefits of a single market

Admittedly, the Commission faces numerous hurdles, including the requirement that decisions on tax by the Council of Ministers be unanimous, the emphasis on sovereignty by national tax administrations and the need to observe subsidiarity.

But national tax authorities should know that their cherished sovereignty in company tax matters has already been eroded by global financial liberalisation, the mobility of capital and investment, and the tax rules of other countries – EU members and non-members alike – regarding internationally active companies. Continuation of the status quo may lead only to further erosion of tax revenues for European governments.

It is now up to the Commission and national governments to revitalise the stalled process of harmonisation of company taxation. Failure to act would seriously undermine efforts to achieve the single market to its full extent. It would also be inconsistent with the drive toward a single currency, which aims precisely at perfecting the single market.

I hope that the "Communication on direct taxation", due to be released by the Commission this summer, will finally get things moving again.

The author is vice-chairman of Citicorp/Citibank and former finance minister of the Netherlands

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Attitude is the problem

From Mr Jason James.

Sir, I refer to Joe Rogaly's article "A self-help slogan for the 90s" (June 29/30). I have not read Samuel Smiles' *Self Help*, but I imagine that its heroes are largely self-made men whose hard work and vision enabled them to build up substantial wealth. The process of wealth creation has not changed much over the last 100 years, except that managers and shareholders are less likely to be the same people.

But Mr Rogaly highlights the change in British attitudes by denouncing the former as "Fat Cats" and the latter as "speculative gains". When even the financial press holds these attitudes, it is not surprising that Britain has trouble creating wealth. Or that so many Brits find better opportunities elsewhere.

Jason James,
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Japan

Reveal Three Tenors' fees

From Mr Michael Varcoe-Cocks.

Sir, There can be little complaint over the fees earned by top opera singers for purely commercial events such as the Three Tenors concerts ("Off the top of the scale", June 29), but it seems unacceptable that, when they perform in publicly subsidised venues, their fees are kept secret. Andrew Clark's only examples – up to £13,500 in Munich and Berlin – are insignificant given the vastly higher level of subsidy in those cities.

When one of the Three Tenors sings at Covent Garden, the increased ticket prices bring in an extra £100,000 per performance. Are paying patrons and taxpayers not entitled to know how much of it goes to the tenor and how much to offset the decrease in the Arts Council grant?

Michael Varcoe-Cocks,
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London W6 0BE, UK

Critical factors in R&D success

From Dr George Haour.

Sir, The "R&D Scoreboard" survey (June 27) is always an interesting occasion to discuss how R&D investments contribute to the creation of tomorrow's jobs.

Indeed, more critical than input numbers is the quality of the outcome, which is often difficult to quantify. In this regard, I would like to make several comments, as follows:

● Companies tend to run too many innovation projects, scattering resources on too many activities. Some of these, it is fair to say, are often imposed by regulatory authorities, as is the case of the pharmaceutical sector. There, the cost of bringing new drugs to market has considerably increased, essentially as a result of the requirement for much more extensive clinical studies.

● Companies should better recognise the contribution of "creative failures": technology-intensive companies are awash with stories of aborted projects which generated knowledge, which later turned out to be crucial for the success of other, unrelated developments.

● Related to this is the danger that business considerations excessively constrain the research agenda: many success stories may be traced to persistent mavericks who combine technical expertise and business sense in an uncanny way.

As one of the actors contributing to the complete innovation process, from idea to market launch, R&D productivity is particularly sensitive to the human factor: enthusiasm and talent are as necessary for success as resources.

Georges Haour,
professor of technology management,
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Switzerland

UK apprenticeship initiative is working

From Mr Rob Wye.

Sir, I am writing in response to Jo Gardiner's letter (June 20), which may lead people to be misled about the ideas behind modern apprenticeships.

Modern apprenticeships were announced in the Budget of 1993 as an initiative where employers would take the lead. Their development has been guided through Training and Enterprise Councils and industry training organisations, which represent employers at a local and sectoral level respectively. Targeting of apprenticeships is not and has not been a matter for government intervention. The government has not set sectoral targets. Tecs contract with local employers for the provision of training in the light of local labour market information and local demand.

Modern apprenticeships are about government and industry working in partnership. The number of sectors offering modern apprenticeships is increasing – it now stands at 57. And the initiative in some sectors, especially those where there has been no previous history of apprenticeships, is only just getting into its stride. For example, Ms Gardiner cites telecommunications as an under-utilised sector. The largest employer in this sector, BT, has chosen to wait until this September for it's recruitment drive on to modern apprenticeships.

Ms Gardiner also asserts that the initiative is substantially under-subscribed. This is not true. Modern apprenticeships were only launched nationwide in September 1995. Our latest figures, which do not take us to the 1995-96 year end, show more than 26,000 modern apprentices have started – a significant achievement for any new initiative. It is surely right that employers should decide where training is necessary and the government should do everything in its power to ensure that training happens in a cost-effective way. Departmental evaluation and independent research shows that far from creating a skills imbalance, modern apprenticeships are just what employers and young people want, in increasing numbers.

Rob Wye,
head of training for young people division,
Department for Education and Employment,
Moorfoot,
Sheffield S1 4PQ, UK

Virtuous circle of investment, growth and trust

From Ashoka Mody.

Sir, The link between trust and growth is a tantalising one though rarely studied. Stephen Knack's findings ("Low trust, slow growth", June 26) are interesting and reassuring. But it may be premature to conclude that trust is the cause of higher investment and growth.

Equally, I think, high rates of investment and growth lead to trust, creating a virtuous circle. When societies invest at high rates, they need to create new norms of good behaviour; and high growth provides the confidence to trust others.

I believe that this mutually sustaining relationship provides a better understanding of institutional development and growth in east Asia than an explanation that presumes that somehow these societies are inherently more trusting of their fellow citizens. Similarly, trust and investment are based on the society's rate of discount, or its ability to look to the future with optimism – this ability is also not inborn but is nourished by high growth.

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FINANCIAL TIMES
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Tuesday July 2 1996

Karadzic at bay

Not for the first time, Radovan Karadzic, the Bosnian Serb leader, is making a fool of all those important people who like to make statements about "the will of the international community".

The said community, in its manifestation as the war crimes tribunal in The Hague, has indicted Mr Karadzic and begun trying him in absentia as an instigator and organiser of mass murder and other gross violations of human rights. In another manifestation, as the signatories of the Dayton peace agreement, it has ruled him ineligible to hold office.

In a third, as the newly named "P8" (G7 plus Russia), it has now urged him to resign immediately, and has threatened to reimpose sanctions if so recommended by either of two further manifestations: Admiral Leighton Smith, commander of the Implementation Force (Ifor) in Bosnia, and his civilian counterpart Carl Bildt, named as High Representative under the Dayton agreement though exactly whom or what he represents has never been made clear.

Admiral Smith has it in his power to order Mr Karadzic's arrest and send him in irons to The Hague. He has not done so because he himself is under strict orders from Washington to avoid at all costs a repetition of the events in Mogadishu three years ago when US peacekeepers engaged in an unsuccessful manhunt for the Somali warlord Mohammed Farah Aideed and ended up incurring spectacular and ignominious casualties – the very last thing Bill Clinton wants to happen in his re-election year. That puts Mr Bildt in an awkward position, which his predecessors as mediators in the Bosnian conflict would all too easily recognise. Lacking force to back him up, he is reduced to negotiating with the very villains on whom he is expected to impose "the will of the international community".

That enables Mr Karadzic to play cat instead of mouse. Under pressure from President Milosevic of Serbia, who genuinely fears the reimposition of sanctions, he goes through a charade of resigning as "president" while getting himself re-elected as party leader and allowing his party to nominate him as a candidate in elections now fixed for September 14.

Eliminating Mr Karadzic is by no means a sufficient condition for reconciliation in Bosnia. But it is a necessary one. As long as he is in power, whether or not he is formally in office, residents of his "Serb republic" will not feel free to explore reconciliation and those in other parts of Bosnia will not feel safe to venture across the partition lines.

The pressure on Mr Milosevic to obtain Mr Karadzic's surrender, along with that of his co-accused General Ratko Mladic, must be kept up. Sanctions on Yugoslavia helped bring about the Dayton agreement. If there is no other way to enforce it, they will have to be reimposed, and soon. The electoral calendar, fixed at US insistance, allows no further delay.

A Real chance

Yesterday marked the second anniversary of the Real Plan – the reform programme that was to transform the Brazilian economy and make high inflation a thing of the past. President Fernando Henrique Cardoso, the plan's author, has every reason to be proud of his achievements. During the past two years, Brazil has moved closer to achieving rapid, sustainable growth than at any time in the past 20 years. It still, however, has a fair way to go.

The first stage of the reform programme was to open up the economy and banish inflation. This was a signal success. Inflation is expected to be around 12-15 per cent in 1996, down from the four-digit rates of two years ago. This first wave of reform has changed the Brazilian economic landscape. But, as Mr Cardoso was the first to argue when he took office last year, translating these achievements into growth in employment and incomes required an overhaul of the state. Here he has fallen well short of expectations.

The administration had hoped that by now it would have passed constitutional amendments to reform the social security and tax systems and the civil service. But, thanks to heated opposition from Congress and state governments, not one of these reforms has actually been passed into law. Equally worrisome has been the dramatic deterioration in the public balance sheets since Mr Cardoso took office. An operational budget surplus of 2 per cent of GDP in 1994 was transformed in 1995 into a 5 per cent deficit. Total domestic debt rocketed 50 per cent.

Cause for concern, or outright panic? Some warn that, with an over-valued exchange rate and a large fiscal deficit, Brazil is a Mexican-style accident waiting to happen. Most investors do not expect a crisis but, as Mexico showed, the outlook could change dramatically if investors start doubting the government's capacity to push through the second stage of reforms. And, just as important, if they start doubting the public's willingness to pay for continued low inflation in high interest rates and modest growth.

The municipal elections in October must loom large in any such calculation. A victory for President Cardoso's supporters would strengthen his hand in Congress thereby, possibly, paving the way for greater market confidence, lower interest rates and faster growth. It would also, crucially, boost the president's chances of winning Congressional backing to stand for a second term in 1998.

A poor result for Mr Cardoso's allies in the October elections would not signal the end of the Real. The new currency has proved a lot more resilient than the many others that came before. But the price of the last year's disappointments may be that neither the Real, nor the reforms it represents, would survive for long without their creator.

Tackling Tony

New Labour, new strategy. Mr John Major, the UK prime minister, told the cabinet yesterday that he intended to defer the general election until the last possible moment in May 1997. His colleagues promptly agreed to abandon their previous lines of attack on Mr Tony Blair's New Labour party in favour of an entirely fresh approach.

The latest strategy carries risks for Mr Major. It admits that under Mr Blair's stewardship the opposition has indeed changed, and thus implicitly acknowledges a seismic shift in British politics during the past two years. But it represents nonetheless the government's last chance of mounting a credible assault on Mr Blair's new *prospectus*.

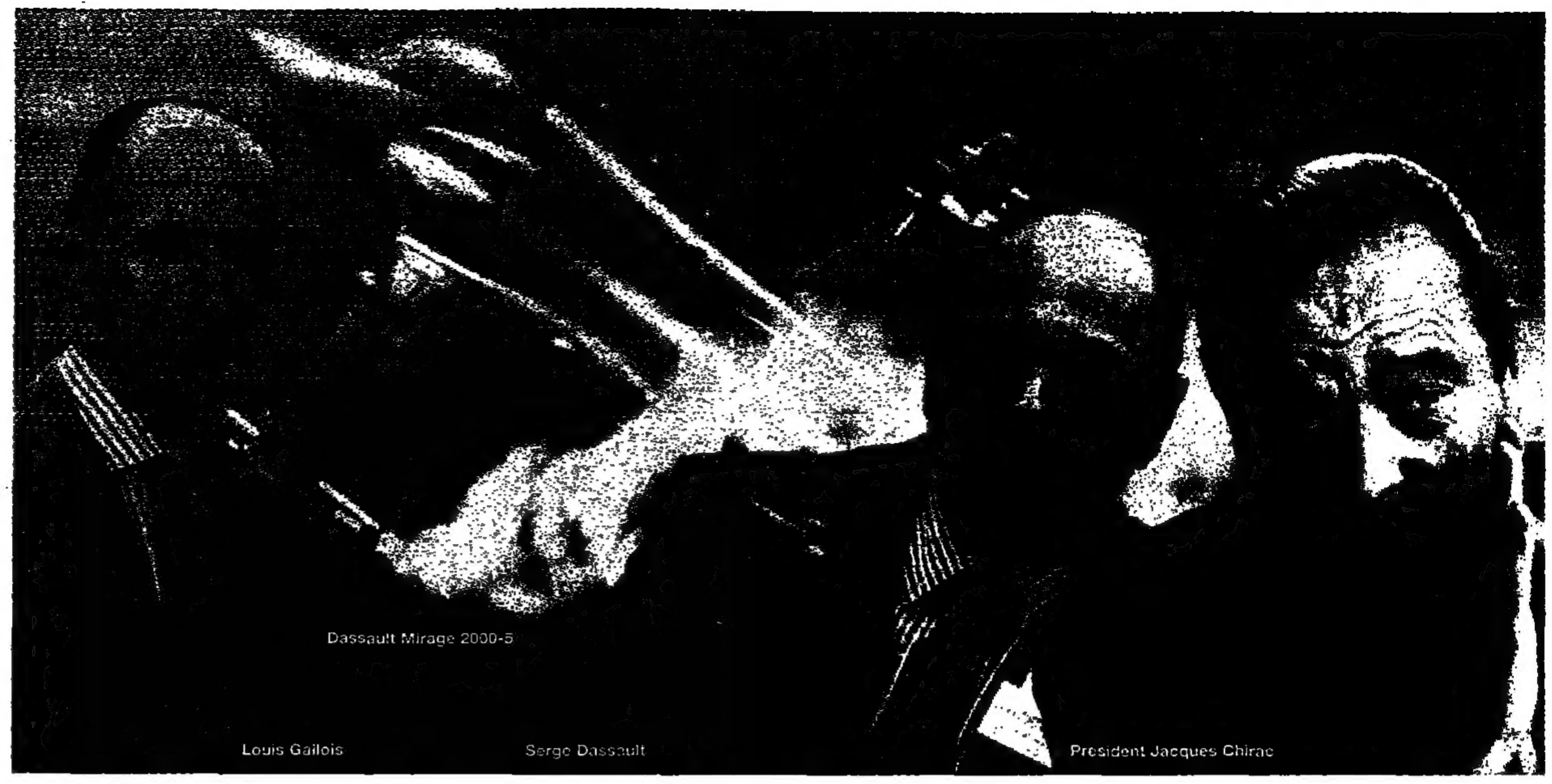
Until now, the Conservatives have floundered in the face of the Labour leader's determination to modernise his party. From time to time, they have attacked his ideas as a pale imitation of their own. On other occasions New Labour's glossy new policy documents have been characterised as empty vessels, devoid of real substance. Finally, it has been said that while Mr Blair might be a social democrat his party remained staunchly socialist.

None of these approaches has made an impression on the electorate because they have denied the simple truth that the Labour leader has radically rewritten his party's prospectus. Political campaigning of necessity may simplify issues for the electorate, but to be effective in influencing opinion it must be grounded in reality.

So the Conservative advertising onslaught to be unveiled later today under the rubric New Labour, New Danger, will not seek to deny that Mr Blair has abandoned much of the ideology which lost his party the last four elections. Instead it will focus on the policies to which both the leader and his party remain publicly wedded.

Most obviously it will attack Labour's proposals for radical constitutional change, for a national minimum wage, for the abolition of the UK's opt-out from the European Union's social chapter, and for a reversal of some of the government's health and education reforms. It will also seek to persuade the voters that, whatever its promises now, New Labour would inevitably increase public spending and taxes. As one senior strategist put it, the Conservatives intend to engage with opposition policies "on the basis of what they are, not what they used to be".

Up to a point anyway. It would be encouraging if this new, albeit enforced, willingness to confront reality heralded the beginning of an election campaign founded on serious debate about the issues. New Labour, after all, remains vulnerable on a range of policies. Unfortunately, past experience suggests that intellectual argument soon gives way to crude political invective.



Dassault Mirage 2000-5

Louis Gallois · Serge Dassault · President Jacques Chirac

Political dogfight nears its end

A merger between Aérospatiale and Dassault is due to be completed by January but it will be difficult to finalise, says **David Buchan**

One of France's longest running political-corporate sagas seemed to be nearing an end, with yesterday's declaration by the French government that state-owned Aérospatiale and privately managed Dassault Aviation will finalise their merger into "a single group" by next January.

So President Jacques Chirac seems to be getting his way. He appears to have succeeded – where French defence ministers have failed over the past 20 years – in putting France's civil and military jet aircraft businesses together and thereby placing the country on the same basis as Britain and Germany.

And Mr Serge Dassault has at last given up the struggle to keep the family business, built up by his famous father, Marcel, out of the state's clutches. The government confirmed yesterday that it will, "as majority shareholder, have effective control" of the new group. Tired of Dassault's ability to dictate the shape of the French air force, and unable to provide both Aérospatiale and Dassault with enough orders, the state has decided the two must become one.

Aérospatiale, which has five times the turnover of Dassault, has made no secret of its desire to be on an equal footing with Daimler-Benz Aerospace and British Aerospace for the impending negotiations to turn the Airbus consortium into a joint company. Both Dasa and BAe make military jets as well as Airbus components.

Mr Louis Gallois, president of Aérospatiale, has been talking of the need for the widest possible alliance between his company, Dasa and BAe in order to take on the competition from the US. Apart from widening Aérospatiale's product range, the new deal makes the company more similar to its German and UK partners by partially privatising it.

The government declaration was silent on Mr Dassault's stake in the new group. But officials say that, while the respective assets of Aérospatiale and Dassault have yet to be finally valued, Mr Dassault should get more than 25 per cent and less than 33 per cent. Mr Dassault wants to head a new supervisory board, leaving day-to-day control of an executive "directoire" to Mr Gallois.

Such terms would by no means be bad for the 71-year-old Mr Dassault. But it is a deal that he has staunchly resisted. He could hardly believe his eyes and ears when in mid-February Mr Chirac gave Dassault and Aérospatiale until June 30 to come up with a plan to form themselves into a joint company within two years, as part of his plans to restructure the French defence industry.

For three months, Mr Dassault tried everything to frustrate the president's plan. He refused to let the "pilot committee" between the two companies, which was supposed to steer them towards a marriage plan, meet. In two encounters at the Elysée presidential palace, he made emotional appeals to Mr Chirac, whose father was a banker to the Dassault family. He even, in the words of a senior government minister, "offered to merge with other companies, including foreign ones", if Mr Chirac would spare him from being yoked to Aérospatiale.

But by mid-May his resistance broke. The Elysée and the government made clear that, if necessary, they would take over the company by exploiting the state's hitherto unused voting rights as shareholder of Dassault Aviation and their position as its principal military customer. Meanwhile, Mr Dassault's position as the head of a major exporting company was fatally weakened when the Belgian judiciary served an international arrest warrant on him. Mr Dassault said he had "nothing to do" with the alleged payment of bribes by Dassault to the Belgian Socialist party to win a 1989 contract to refit some US-made F-16 jets. Mr Dassault remains safe in France, which does not extradite its own nationals, but he cannot travel to third countries for fear they might honour the warrant and dispatch him to Belgium.

While Dassault has lived largely off the state's military orders, its aversion to outright state control is deeply rooted in the history of the family's relations with the French state. Back in 1936, the Socialist-led Popular Front government nationalised all aircraft factories, including those belonging to the Bloch family, the original name of the Dassault family.

The fact that some of the old Bloch factories became part of today's Aérospatiale appears to have added an extra element to what one government official calls the "psychodrama" being played out between Mr Chirac and Mr Dassault in recent weeks.

Following deals in the 1970s and 1980s, the French state has 46 per cent of Dassault Aviation's capital but 54 per cent of voting rights, although it has never dared put these voting rights to the test. For years, Dassault managed to cling to its independence and to play off one government minister against another. This changed once Mr Chirac announced his Aérospatiale-Dassault merger plan, and all his ministers fell in behind it.

Part of the spring tussle between the government and Mr Dassault was over the future of the Rafale, the new jet fighter which Dassault has developed for the French air force and navy. If Dassault's hope of building a total of 300 Rafales is ever realised, it will be, at a total development and production cost of FFr180bn (£22.5bn), France's most expensive ever weapons project. This is precisely why the Rafale has had its critics among the navy and air force top brass; they do not fault the plane technically, but do not want it to swallow their entire procurement budgets.

The Dassault lobby long ago dissuaded France from joining other Europeans in building the Eurofighter, and talked the navy and the air force out of schemes to use cheaper US planes or extend the life of existing Dassault Mirages.

Nonetheless the government played on Mr Dassault's anxiety to see the Rafale well ensconced in the 1997-2002 military programme. When the military programme was announced in May, the result was a compromise; the Rafale programme is to continue at a delayed pace, with a first batch of 12 reaching the Charles de Gaulle aircraft carrier in 2002 and the first squadron of 33 reaching the air force in 2005.

The government's stress yesterday that Aérospatiale and Dassault would pool their research teams and buying services indicates the influence of Mr Jean-Yves Helmer, who was head of Peugeot cars until he was appointed France's defence procurement chief in March. He sees Aérospatiale and Dassault coming together as Peugeot and Citroën did, under a joint holding company with centralised financial control and buying polices but developing and marketing separate brands.

Yet Aérospatiale and Dassault differ far more, in both culture and products, than those two car companies ever did. The former operates largely in the mass market of civil aviation, is long used to co-operating with foreign companies in every area except ballistic missiles, and is an open provider of information about itself. Dassault Aviation operates largely in the secretive military field in a highly secretive way. It has long pursued a go-it-alone approach, although last autumn it did put some of its engineers together with those of BAe to think about a future European combat plane, post-Rafale and post-Eurofighter.

With 3,000 engineers in Aérospatiale's bureau d'étude and 1,500 in Dassault's bureau d'étude, both have research teams that exceed their current needs. But elsewhere the benefits of any rationalisation are less obvious. Dassault jets and Aérospatiale helicopters (made by its subsidiary, Eurocopter) have similarly complex weapon systems, but use different software. Some 45 per cent of Dassault Aviation's sales comes from Falcon business jets. But the Falcon is a high-cost product, made virtually to military specifications, says a senior Aérospatiale executive who sees little similarity between the making of Falcons and the manufacture of Airbuses.

Small wonder, then, that the French government yesterday gave the two companies until next January to work out "the technical, financial and industrial modalities" of the merger. If and when these are worked out, the new group may "play a driving role at the European level", as the government wishes. But there is still too much blank space in the Aérospatiale-Dassault blueprint to guarantee that it will get off the drawing board and into the air.

How the groups compare

Aérospatiale		Dassault Aviation
49.2	Turnover (FFrbn)	11.5
[illegible]	Net financial debt (FFrbn)	0
3,077	Gross operating profit (FFm)	800
[illegible]	Net profit (FFm)	528
38,642	Workforce	11,000
[illegible]	Civil/military ratio	[illegible]

· OBSERVER ·

Getting steamed up

■ Ukrainians bit the hand that feeds, and got away with it – this time. The day before the World Bank board met to approve a $310m loan last week, the government locked out the bank's entire local office.

The bank currently occupies a prime site in Kiev, just across a garden from the presidential administration building.

Other tenants are Deutsche Bank and the ambassadors from Spain, Belgium, Italy and the European Union. The once shabby apartments and offices have all been renovated and brought up to western standards, including in the communications department.

So, naturally, Ukrainian nabobs now want it back. For a year they have demanded the space for their own flats. On Wednesday, the president's man closed the doors. Even World Bank officials, whom Ukrainian finance officials have begged to disburse the loan quicker than ever to meet the bills piling up at the end of the second quarter, were barred from entering by armed guards.

They were kept out until Prime Minister Pavlo Lazarenko personally intervened. The loan went through and Ukraine's finances are less shaky.

Yet one wonders how long the coddled government elite can restrain themselves from sacrificing relations with the countries which have underwritten its economic survival . . . given, for instance, the lure of the hot tub now waiting to be installed in the EU man's latest residence.

Russian roulette

■ President Boris Yeltsin's latest health scare has sent the country's constitutional experts scurrying to their law books.

With morbid fascination, they are speculating about what would happen if the president were to be incapacitated before or immediately after Wednesday's poll. The complexities could keep them haggling for days.

If Yeltsin were physically incapable of competing in the run-off against Gennady Zyuganov, the Communist challenger, the third-placed candidate in the June 16 poll would enter the fray - albeit with a delay. March forward Alexander Lebed, the military tough nut who has just been made the president's national security adviser.

But if the president were re-elected and could not serve out his four-year term, Victor Chernomyrdin, the prime minister, would temporarily assume the presidency and be obliged to call fresh free-for-all elections within three months.

The added complication, though, is that the newly-elected president must submit his prime minister to parliament for approval. What happens then if the newly-elected president falls ill before his prime ministerial candidate is approved?

Pass the vodka quick...

Strong brew

■ Meyer Kahn, ebullient chairman of South African Breweries, thinks of himself as a bit of a wag – fond of pointing out that SAB's 98 per cent share of the domestic clear beer market merely puts it in the position of being "temporary sole supplier".

But his sense of humour was recently found wanting. SAB, it seems, has taken umbrage at a recent note from Nedcor Securities, a division of one of South Africa's largest banks. In the report, analyst Michael Coulson argues that, should the ANC government be really serious about breaking up the country's over-concentrated corporate structure, "the SAB beer monopoly would be a good place to start".

Coulson concludes: "We do not believe SAB's monopoly will be allowed to slumber on forever and holders should reduce weightings over the longer term."

Many would agree with Coulson. The problem is that SAB is one of Nedcor's larger customers.

Hence the extraordinary note from Richard Laubscher, Nedcor's chief executive, hastily distancing the bank from the hapless analyst's conclusions, and reminding clients what a public-spirited company SAB really is – having pushed the real price of beer down by 50 per cent over the past 20 years, etc, etc.

What price news?

■ For a government which delights in lecturing other countries on press freedom, the US seems oddly reluctant to practise what it preaches.

Long the only delegation at G7 summits not to open its briefings to all comers, it took news management to new extremes at last weekend's shindig in Lyons.

Washington-based correspondents with White House accreditation were surprised to find themselves barred from official meet-the-press sessions unless they had paid large sums to fly over on President Clinton's aircraft. At the heavily-guarded US press centre, officials were reluctant even to part with transcripts of briefings given the previous day.

The reason given was that hacks who had paid up for seats on Air Force One would feel they hadn't got their money's worth if everyone else got the news free.

One can imagine the US reaction if Beijing, say, began flogging access to official information to the highest bidders...

The Financial Times

100 years ago

Telephones

Letter to the Editor. Sir, – I think you are very unfair to the National Telephone Company. I have always found the officials models of courtesy and long-suffering. For a long time past I have bothered them every few days with complaints that my telephone is out of order, and I invariably receive a courteous letter in reply, promising that the matter will be seen to. I have never been abused or roughly treated by any member of the company, and am bound to say that they are one and all past masters of the art of apologising. I am, &c, Patient.

50 years ago

Brazilian Traction

Questions of expropriation have touched the Brazilian Traction Light and Power Company from time to time, but these were described as irresponsible rumours by the chairman at the meeting in Toronto. Shareholders will be relieved by his statement, which concluded with the observation that there was no question of expropriation by the Government. They will find further encouragement in the fact that the recent decree limiting profits remitted from Brazil to 8 per cent of the registered capital employed there does not affect public utilities which earn a relatively low return on their capital.

FINANCIAL TIMES
Tuesday July 2 1996

Coopers & Lybrand to join Sumitomo inquiry

By Emiko Terazono in Tokyo and Clay Harris in London

Sumitomo Corporation yesterday said Coopers & Lybrand, a leading international accountancy firm, would join its internal investigation into copper trading losses sustained by its former chief trader, Mr Yasuo Hamanaka.

Coopers is the second non-Japanese firm Sumitomo has brought in for the inquiry. The probe is to be supervised by Sumitomo's outside legal counsel, the New York firm of Paul, Weiss, Rifkind, Wharton and Garrison.

The Japanese trading company said Coopers had been chosen for its regulatory expertise and experience in helping financial groups to draw up internal surveillance systems.

Working with Sumitomo's own managers, auditors and lawyers, the outside team would try to establish what had happened, identify any weaknesses or failures in management and control systems, and recommend any changes to prevent a recurrence.

Sumitomo dismissed Mr Hamanaka last month after alleging that he had lost $1.8bn after a decade as a 'rogue trader'. Copper traders in London and Singapore suggest the company's losses could be as much as $4bn.

Japanese business leaders claimed, meanwhile, that the Sumitomo affair had exposed flaws in the London Metal Exchange's trading system. Leaders of the Kansai Economic Federation (Kankeiren), a business federation for corporations based in western Japan, criticised trading practices on the LME.

Mr Tetsuro Kawakami, Kankeiren chairman and chairman of the International Wrought Copper Council, the main global body for copper users, said the LME's organisational structure could be improved. Mr Kawakami is also chairman of Sumitomo Electric Industries, Japan's leading electric wire and cable maker and a member of the Sumitomo family of companies.

Separately, several Japanese trading houses indicated interest in participating in the Batu Hijau copper and gold mining project in Indonesia, a venture between Sumitomo and Newmont Gold of the US. The loss of the project to another Japanese trading house would be a huge blow to Sumitomo, which is responsible for financing up to 60 per cent of the $1.5bn project. But Sumitomo could face a sharp rise in funding costs because of credit rating reviews being undertaken by international credit agencies.

Other Japanese companies suggested that contract might be reviewed. "It's a high-profile deal and many trading houses are interested in taking part," one said. Sumitomo, however, denied any reassessments were being made and said the project would be launched as planned.

In Denver, Newmont said it would consider both financial and non-financial factors but it had no reason so far to doubt that the project would proceed in its current form.

Meanwhile, the Hong Kong arm of China Non-ferrous Metals Holdings, a Chinese state-owned metals trading company, denied that it had any links with Mr Hamanaka.

French PM plans to shift power from Paris to regions

By Andrew Jack in Paris

The French government yesterday unveiled plans to improve the quality and speed of its administration and to delegate more decision-making power from Paris to the regions.

Reform of the highly centralised French administrative system, which is still largely based on that created by Napoleon, was one of the central priorities announced by prime minister Alain Juppé's government for 1996, but yesterday's announcement was the first detailed indication of its intentions over the next three years.

Mr Juppé said the objective was to make the administration "simpler, closer and more modern". It aims to cut down on red-tape and ensure that nearly all decisions about individuals, companies and organisations are made locally rather than in the French capital, compared with just 50 per cent today.

Mr Dominique Perben, minister for the public sector, said: "The management of the state is still characterised by profound archaisms." He said reforms would tackle concerns, reflected in a recent survey, that 92 per cent of people wanted a faster response in dealings with government.

Mr Perben said the number of people working in ministries in Paris – about 70,000 – would be cut by 10 per cent over the next three years through natural wastage or by shifting them outside the French capital. The number of headquarters functions in Paris would be cut by 30 per cent.

Critics have been sceptical of the effectiveness of earlier reform attempts – not least the pain associated with moving part of the elite ENA civil service training institute to Strasbourg at the start of the 1990s, and the apparent rise in corruption that accompanied a partial decentralisation of power to local and regional assemblies in the early 1980s.

Mr Perben argued that, while past reforms concentrated on decentralising civil servants out of Paris had had only limited success, his plans were focused more on delegating decision-making authority and he was confident they would succeed.

He said he planned to create local agencies in which the French could seek rapid contact with the administration, reduce paperwork and cut down on duplication and waste in local offices. He cited the example of water, which is currently handled by six separate services in each government department.

In addition, he said that all graduates of the ENA institute would in future spend at least two of their first six years in government working outside Paris.

Brussels seeks to probe planned air alliance

Continued from Page 1

appropriate measures" to end infringement of competition rules.

Meanwhile, the UK government will this week propose to the US that the two countries set up an independent tribunal to protect smaller airlines against uncompetitive behaviour from the proposed alliance between British Airways and American Airlines.

The proposal is expected to be put during bilateral negotiations which begin in Washington today. The discussions are an attempt to reach an "open skies" accord between the two countries, which the US has demanded as the price of approving the BA-American alliance, announced last month.

The UK will argue that the independent tribunal, consisting of experts from both countries, could offer protection to airlines such as Virgin Atlantic of the UK which has said BA and American, which will control 60 per cent of UK-US traffic, will squeeze out competitors. The two airlines will co-ordinate schedules and share revenues from their transatlantic operations.

The UK-US negotiations are a more immediate issue for the two airlines, following unsuccessful "open skies" talks between officials in Paris last month.

The US said then it saw little sign of the UK being prepared to move on issues such as greater access to London's Heathrow airport and the right of US carriers to fly to third countries from the UK. The US said it would not be sufficient to open Heathrow if its carriers were then told the airport was full.

Frankfurt Airport corruption probe widens

By Wolfgang Münchau in Frankfurt

German prosecutors are investigating more than 20 companies and a group of Frankfurt airport officials suspected of defrauding the country's largest airport out of tens of millions of D-Marks during the construction of a second terminal.

So far 15 people have been arrested, of whom five are still in jail on remand, in what is becoming one of Germany's biggest corruption scandals.

The investigation comes at a time of increasing public awareness of corruption in a country that has traditionally thought of itself as law-abiding. Last year, a bribery affair involving employees of Adam Opel, the German carmaker owned by General Motors, triggered a wave of outrage, as did the disappearance of state financial aid that led to the bankruptcy of shipbuilders Bremer Vulkan earlier this year.

Terminal 2 at Frankfurt Airport was completed in 1994 at a cost of around DM2.5bn ($1.6bn). Mr Wolfgang Schaupensteiner, the Frankfurt anti-corruption prosecutor, claimed yesterday that FAG, the airport authority, was overcharged by between 20 per cent and 30 per cent, losing "tens of millions" of D-Marks.

The prosecutors say officials at the publicly-owned airport accepted generous gifts, ranging from TV and videos to holidays, in return for preferential treatment of suppliers.

The investigation focused on procurement for communication electronics, including the cabling for telephone systems, fire alert systems and passenger information systems.

Mr Schaupensteiner said he and his investigators were confronted with an unusually well-organised scheme.

"This is no longer a case of a hand-over of the traditional envelope, but companies are creating dense webs," he said.

"They bill for services they have not supplied, they bill via subsidiary companies, and it has an air of correct businesslike conduct, and everything is properly documented. They even pay taxes on their bribes, and they hire respectable tax advisers. The appearance on the outside is clean. On the inside it is deeply corrupt," he said.

Mr Schaupensteiner has been investigating the airport case since December last year, and is expected to continue until the end of this year, or possibly into 1997, before bringing charges.

Meanwhile, the public's indignation has increased political pressure for a toughening of Germany's policing laws. Last month, the federal government tabled a bill allowing the bugging of private homes for a limited period in cases of suspected organised crime.

THE LEX COLUMN

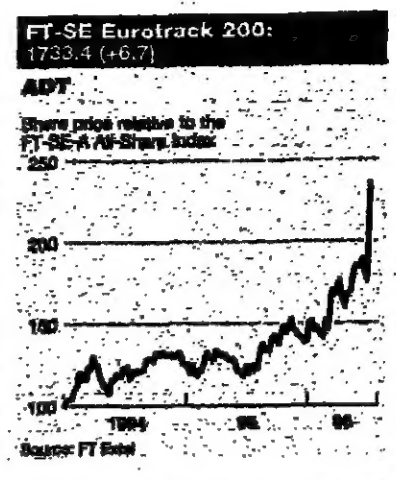
Waste not want not

The proposed merger of ADT and Republic Industries has all the signs of a late 1980s-style deal. The industrial logic looks flimsy to say the least. ADT's expertise is in electronic alarms and car auctions. Republic Industries is basically a waste management company, although it is being swiftly turned into a mini-conglomerate by Mr Wayne Huizenga, its new chief executive.

But who cares about logic when you have personalities? ADT, registered in Bermuda, is run by Mr Michael Ashcroft, once the City's bête noire, who stands to collect $300m from this deal. Mr Huizenga has wooed investors with an enviable record. He founded WMX Technologies, now the biggest waste company in the world. After leaving there he built up the Blockbuster video chain and sold it to Viacom for $8bn. Last August he joined Republic, which until then was a sleepy waste management group. Since then he has bought almost 20 companies – all of them for shares – and seen the share price jump from $2 to $27.

Given the fantastic performance of its share price, Republic can easily pay a premium for ADT and still claim the deal is earnings enhancing: Mr Huizenga is forecasting earnings growth of 30-40 per cent in each of the next two years. And since the acquisition is being structured as a merger there is no goodwill to be written off.

For ADT shareholders, who have already seen their shares outperform handsomely since the start of 1994, yesterday's one third jump in the price must look like a gift. Rather than waiting for shares in the merged entity, they should take some profits by selling in the market.



French aerospace

France's politicians have done their job by persuading Mr Serge Dassault to merge Dassault Aviation with state-owned Aérospatiale. Now it is the job of the bankers to work out how much each company is worth. This could be just as tricky. One might have thought valuing Dassault Aviation would be simple. After all, the fighter manufacturer is quoted. The snag is that only 4 per cent of the equity is floated, so even small trading volumes can inflate the share price. That, indeed, has happened this year: the price has more than doubled on hopes that Dassault will secure an advantageous deal in the forthcoming merger. Of course, using its current market capitalisation – FFr7bn – to decide its value in a merger would be circular. Valuing state-owned Aérospatiale is equally hard. One approach would be to value it on sales. Using Boeing or Lockheed Martin as benchmarks would give a value of FFr39bn-FFr59bn. This range, though, is excessive. Not only are Boeing and Lockheed leaders in their industries, they are also profitable. Aérospatiale may hope that its current cost-cutting exercise – which pushed it into a FFr981m loss last year – will lay the ground for future profitability. But analysts suspect more restructuring will be needed. All in all, a value nearer FFr20bn looks more realistic.

Such figures are, at present, only guesses. But one thing is clear: Dassault is worth less than Aérospatiale. Given that Mr Dassault owns only half of Dassault, suggestions that he will end up with over a quarter of the combined entity look implausible.

Cadbury Schweppes

Mr John Sunderland's appointment as Cadbury Schweppes' chief executive has raised few eyebrows. After all, he is very much a Cadbury man, with 28 years' service under his belt – not the sort to rock the boat. Nonetheless, the recent unwinding of the Coca-Cola & Schweppes Beverages alliance demonstrates a group prepared to undergo fundamental re-evaluation. And since Mr Sunderland has run Cadbury's confectionery operations for many years, he may cast a more critical eye over the direction of the company's soft drinks business.

That is not to suggest that he will heed calls for a demerger. Demergers are the fashion and Cadbury is a superficially obvious target, since soft drinks and confectionery offer no synergistic benefits beyond a smoothing of seasonal trends – hardly a compelling reason for a combination. However, the businesses are run independently, and there is little evidence that they have been unjustly starved of capital or management attention. Nor is there a strong valuation argument for splitting them, other than an incitement for takeover bids.

However, Mr Sunderland needs to carve out a clearer direction for a soft drinks business which, without its own network of bottlers, looks a vulnerable pigmy among the industry giants Coca-Cola and PepsiCo. An alliance or merger with PepsiCo would be one potential means of building a more profitable future, providing greater critical mass in faster growing emerging markets and unifying the Seven-Up brand. It could also release the funds to drive Cadbury into the global super-league in confectionery.

Scottish & Newcastle

Scottish & Newcastle has been the most astute deal-maker in Britain's brewing sector. The acquisition of Chef & Brewer in 1993 transformed its portfolio of managed pubs, which achieved 19 per cent profits growth in the second half of the last financial year – comfortably ahead of its peers. The recent purchase of Courage is delivering substantial cost benefits. In addition, the reduced working capital requirements of the combined group substantially boosted group cash flow last year, and there are further reductions to come this year.

Center Parcs is proving the exception, despite its intended role of demonstrating management dynamism in the wake of Elder's hostile bid in 1988. It is achieving a 9 per cent return on capital invested, which is hardly impressive. But S&N is taking tough measures to address problems. A management reshuffle and increased marketing spend should reverse last year's profits decline, and the operating environment in Germany and France can only improve.

Forecasts of double digit earnings growth over the next two years are firmly under-written by cost savings from Courage, reflecting only limited expectations that a pick-up in UK consumer spending will propel beer and pub profits. And there is every reason to suggest that it will. The fundamentals for the beer industry are steadily improving. Excess capacity has been removed through consolidation, and this should continue with a new owner for Carlsberg-Tetley. And increased consumer spending would help reverse the recent decline in beer prices. The shares should have further to go.

Additional Lex comment on DIY retailing, Page 19

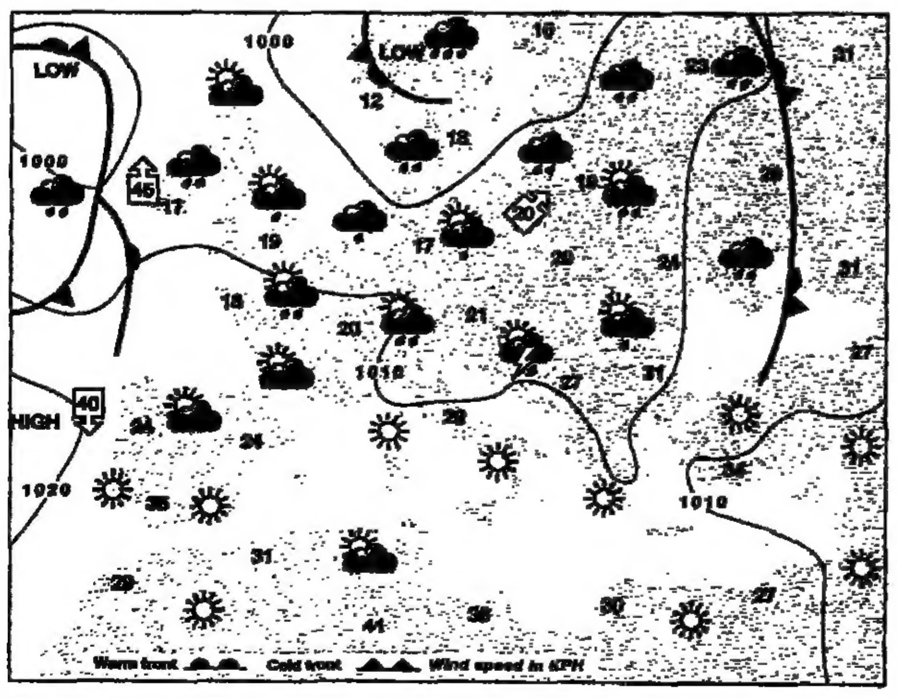
FT WEATHER GUIDE

Europe today

An active low pressure system off the Irish coast will bring rain to Ireland and western sections of England, Scotland and Wales. The rest of the British Isles will have patchy cloud, sunny spells and showers. Scandinavia, the Benelux, northern France and central Europe will be cloudy with showers. Showers may be heavy at times with thunder in the eastern Alps and the northern Balkans. Eastern Europe will be mostly cloudy with occasional rain. In contrast, sunny skies will prevail in the Mediterranean. Thunderstorms are likely in northern Italy.

Five-day forecast

More rain is expected throughout the British Isles along with gusty winds on Wednesday. The Benelux, northern and central France as well as central Europe will have showers. It will become mostly cloudy with occasional light rain in northern Spain and northern Portugal. Other sections of Spain and Portugal will continue dry and sunny. Italy, Greece and Turkey will be hot and sunny.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	44
Accra	cloudy	28
Algiers	fair	31
Amsterdam	shower	16
Athens	sun	31
Atlanta	fair	35
B. Aires	fair	13
B.ham	cloudy	17
Bangkok	cloudy	36
Barcelona	fair	24
Beijing	fair	34
Belfast	rain	17
Belgrade	fair	26
Berlin	shower	17
Bermuda	thund	30
Bogota	fair	16
Bombay	shower	33
Brussels	shower	17
Budapest	thund	24
C.hagen	shower	15
Cairo	sun	33
Cape Town	shower	19
Caracas	thund	31
Cardiff	shower	17
Casablanca	fair	25
Chicago	sun	29
Cologne	shower	16
Dakar	cloudy	31
Dallas	fair	38
Delhi	fair	35
Dubai	sun	44
Dublin	rain	17
Dubrovnik	sun	26
Edinburgh	shower	17
Faro	sun	26
Frankfurt	shower	19
Geneva	cloudy	21
Gibraltar	sun	28
Glasgow	shower	16
Hamburg	rain	16
Helsinki	cloudy	19
Hong Kong	shower	31
Honolulu	fair	31
Istanbul	sun	31
Jakarta	cloudy	32
Jersey	cloudy	16
Karachi	cloudy	34
Kuwait	sun	47
L. Angeles	sun	31
Las Palmas	fair	25
Lima	cloudy	18
Lisbon	sun	26
London	cloudy	20
Lux.bourg	shower	15
Lyon	cloudy	22
Madeira	fair	25
Madrid	sun	34
Majorca	fair	29
Malta	sun	31
Manchester	shower	16
Manila	shower	33
Melbourne	shower	13
Mexico City	cloudy	19
Miami	thund	33
Milan	fair	26
Montreal	fair	27
Moscow	cloudy	19
Munich	shower	19
Nairobi	fair	25
Naples	sun	26
Nassau	thund	33
New York	fair	29
Nice	sun	26
Nicosia	sun	37
Oslo	rain	16
Paris	shower	19
Perth	shower	17
Prague	shower	19
Rangoon	rain	30
Reykjavik	cloudy	13
Rio	cloudy	22
Rome	sun	27
S. Frsco	sun	28
Seoul	fair	24
Singapore	cloudy	31
Stockholm	rain	19
Strasbourg	shower	18
Sydney	fair	18
Tangier	fair	26
Tel Aviv	sun	31
Tokyo	fair	28
Toronto	fair	26
Vancouver	cloudy	20
Venice	thund	24
Vienna	thund	21
Warsaw	cloudy	19
Washington	fair	31
Wellington	shower	10
Winnipeg	sun	27
Zurich	cloudy	17